

COMMERCE AND GENTLE MORES:
ASSESSING THE EMPIRICAL VALIDITY OF *DOUX COMMERCE*

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ABSTRACT

During the Enlightenment, a relatively new view of commerce began to emerge among various thinkers across Europe and America. *Doux* (gentle) *commerce* argued that commerce is associated with and promotes a bundle of moral habits and attitudes. This bundle can be divided into what will be called the Big Six: (1) peace, (2) honesty, (3) trust, (4) cooperation, (5) fairness, and (6) tolerance. While numerous modern thinkers have defended this theory from a variety of angles, an empirical assessment of the theory's validity is sorely lacking. Using various measurements of economic liberalization as a proxy for commerce, this study explores the impact liberalization has on each on the Big Six. In every case, the empirical literature finds that economic liberalization promotes and/or is associated with the Big Six. This indicates that market exchange can be a means of resolving conflict and fostering cooperation.

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INTRODUCTION

Although the proposition that market liberalization fosters economic growth is no longer seriously contested among economists, the claim that market liberalization fosters any kind of *moral* growth is far more controversial. In fact, merchants and markets have more often than not been on the receiving end of suspicion and disrepute.¹ Herodotus reports the Persian king Cyrus as saying,

“I never yet feared men who have a place set apart in the midst of their city where they perjure themselves and deceive each other...” This threat he uttered against the whole Greek nation, because they have market-places and buy and sell there; for the Persians themselves use no market-places, nor have they such at all.²

While this was meant as a knock against the Greeks, many of their own shared similar attitudes about the market. For example, Aristotle argues that “retail trade” should be “justly censured, because the gain in which it results is not naturally made, but is made at the expense of other men. The trade of the petty usurer is hated with most reason: it

¹ E.g., Virgil Henry Storr and Ginny Seung Choi, *Do Markets Corrupt Our Morals?* (New York: Palgrave Macmillan, 2019), Ch. 1-2. For anti-trade views throughout history, see Douglas A. Irwin, *Against the Tide: An Intellectual History of Free Trade* (Princeton, NJ: Princeton University Press, 1996). For contrasting views on the market among European thinkers, see Jerry Z. Muller, *The Mind and the Market: Capitalism in Modern European Thought* (New York: Knopf, 2002). Deirdre McCloskey argues that a cultural shift in “rhetoric” surrounding businesspeople and market activity led to the Industrial Revolution and the subsequent explosion in economic growth. See her *The Bourgeois Virtues: Ethics for an Age of Commerce* (Chicago, IL: University of Chicago Press, 2006); *Bourgeois Dignity: Why Economics Can’t Explain the Modern World* (Chicago, IL: University of Chicago Press, 2010); *Bourgeois Equality: How Ideas, Not Capital or Institutions, Enriched the World* (Chicago, IL: University of Chicago Press, 2016). For a single-volume expression of McCloskey’s trilogy, see Deirdre McCloskey and Art Carden, *Leave Me Alone and I’ll Make You Rich: How the Bourgeois Deal Enriched the World* (Chicago, IL: University of Chicago Press, 2020).

² Herodotus, *Books I and II*, trans. A.D. Godley (Cambridge, MA: Harvard University Press, 1975), 193.

makes a profit from currency itself, instead of making it from the process which currency was meant to serve.”³

St. Augustine describes “traders” as those who “never attain to the grace of God” and are therefore “enemies of...grace[.]” Traders “know nothing of God’s righteousness, but seek to set up their own, and have not been submissive to God’s righteousness...How serious an evil [trade] is can be inferred from the Lord’s expulsion of traders from the temple.”⁴ This anti-commercial attitude continued throughout medieval Europe. In fact, “Jews were associated in the Christian West with the handling of money” and “the intellectual evaluation of an economy in which money played a central role was often intertwined with attitudes toward Jewry.” Money lending was left to Jews “precisely because they were regarded as outside the community of shared values.”⁵ This had dark implications. “In Passion plays, the negotiations between Judas Iscariot and the Jewish leaders of his day were portrayed as bargaining among typical medieval Jewish moneylenders...St. Bernard of Clairvaux, the leader of the Cistercian order, in the middle of the twelfth century referred to the taking of usury as ‘Jewing’ (*iudaizare*), and chastised Christian moneylenders as ‘baptized Jews.’”⁶

However, an alternative view of market exchange--*doux commerce*--began to develop among various thinkers during the Enlightenment.⁷ The French *douceur*,

³ Aristotle, *Politics* (New York: Oxford University Press, 1995), 29.

⁴ St. Augustine, *Expositions of the Psalms, 51-72, Vol. III*, trans. and notes by Maria Boulding, ed. John E. Rotelle (Hyde Park, NY: New City Press, 2001), 430-431.

⁵ Jerry Z. Muller, *Capitalism and the Jews* (Princeton, NJ: Princeton University Press, 2010), 15.

⁶ *Ibid.*, 24.

⁷ Albert O. Hirschman, “Rival Interpretations of Market Society: Civilizing, Destructive, or Feeble?” *Journal of Economic Literature* 20:4 (1982): 1463-1484; *The Passions and the Interests: Political Arguments for Capitalism Before Its Triumph* (Princeton, NJ: Princeton University Press, 2013 [1977]). Traces of *doux*

according to Albert Hirschman, “conveys sweetness, softness, calm, and gentleness and is the antonym of violence.”⁸ The most well-known proponent of *doux commerce* was the French political philosopher Montesquieu:

Commerce cures destructive prejudices, and it is an almost general rule that everywhere there are gentle mores, there is commerce and that everywhere there is commerce, there are gentle mores. Therefore, one should not be surprised if our mores are less fierce than they were formerly...Commerce...polishes and softens barbarous mores, as we see every day.

The natural effect of commerce is to lead to peace. Two nations that trade with each other become reciprocally dependent; if one has an interest in buying, the other has an interest in selling, and all unions are founded on mutual need...The spirit of commerce produces in men a certain feeling for exact justice...By contrast, total absence of commerce produces the banditry that Aristotle puts among the ways of acquiring.⁹

Other prominent thinkers lifted their voices in support of *doux commerce*. “The *spirit of trade* cannot coexist with war,” writes German philosopher Immanuel Kant, “and sooner or later this spirit dominates every people. For among all those powers (or means) that belong to a nation, financial power may be the most reliable in forcing nations to pursue the noble cause of peace (though not from moral motives)[.]”¹⁰ In *The Rights of Man*, American revolutionary Thomas Paine describes commerce as “a pacific system, operating to unite mankind, by rendering nations, as well as individuals, useful to each other.”¹¹ The English theologian and scientist Joseph Priestley explains,

commerce can be found among ancient Greeks like Plutarch and the Stoics. See Irwin, *Against the Tide*, Ch. 1.

⁸ Hirschman, *The Passions and the Interests*, 59.

⁹ Montesquieu, *The Spirit of the Laws*, trans. and ed. Anne M. Cohler, Basia C. Miller and Harold S. Stone (Cambridge, UK: Cambridge University Press, 2015), 338-339.

¹⁰ Immanuel Kant, *Perpetual Peace and Other Essays on Politics, History, and Morals*, trans. Ted Humphey (Indianapolis: Hackett Publishing Company, 1983), 125; italics original.

¹¹ Thomas Paine, *The Works of Thomas Paine With An Account of His Life, In Three Volumes, Vol. II* (Philadelphia: E. Haskell, 1854), 167.

By commerce we enlarge our acquaintance with the terraqueous globe and its inhabitants, which tends to greatly expand the mind, and to cure us of many hurtful prejudices, which we unavoidably contract in a confined situation at home. The exercise of commerce brings us into closer and more extensive connexions with our own species, which must, upon the whole, have a favourable influence upon benevolence; and no person can taste the sweets of commerce, which absolutely depends upon a free and undisturbed intercourse of different and remote nations, but must grow fond of *peace*, in which alone the advantages he enjoys can be had.¹²

Though his (in)famous passage in *The Wealth of Nations* about the self-interest of “the butcher, the brewer, or the baker” is often misinterpreted as a greed-based characterization of market forces,¹³ Scottish “Father of Economics” Adam Smith¹⁴ argues elsewhere that “a dealer is afraid of losing his character, and is scrupulous in observing every engagement. When a person makes perhaps twenty contracts in a day, he cannot gain so much by endeavouring to impose on his neighbours as the very appearance of a cheat would make him lose. When people seldom deal with one another, we find that they are somewhat disposed to cheat, because they can gain more by a smart trick than they can lose by the injury which it does their character.”¹⁵ For fellow Scottish philosopher David Hume, “industry and...refinement in the mechanical arts” lead to “an encrease of humanity, from the very habit of conversing together, and contributing to each other’s pleasure and entertainment.” He sees “*industry, knowledge, and humanity*”

¹² Joseph Priestley, *Lectures on History, and General Policy; To Which is Prefixed, An Essay on a Course of Liberal Education for Civil and Active Life* (Dublin: P. Byrne, 1788), 327-328 (italics original).

¹³ “It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages” (Adam Smith, *An Inquiry Into the Nature and Causes of the Wealth of Nations*, Vol. 1, ed. R.K. Campbell, A.S. Skinner. Indianapolis: Liberty Fund, 1981, 26-27).

¹⁴ E.g., Jesse Norman, *Adam Smith: Father of Economics* (New York: Basic Books, 2018).

¹⁵ Adam Smith, *Lectures on Jurisprudence*, ed. R.L. Meek, D.D. Raphael, and P.G. Stein (New York: Oxford University Press, 1978), 328-329.

as being “linked together by an indissoluble chain.”¹⁶ French-born Dutch jurist Samuel Ricard conveys sentiments similar to that of Smith and Hume: “Through commerce, man learns to deliberate, to be honest, to acquire manners, to be prudent and reserved in both talk and action. Sensing the necessity to be wise and honest in order to succeed, he flees vice...[H]e would not dare make a spectacle of himself for fear of damaging his credit standing and thus society may well avoid a scandal which it might otherwise have to deplore.”¹⁷ In perhaps one of the most famous statements of the *doux commerce* theory, the French philosopher Voltaire describes the scene of a what he calls a “peaceful and liberal assembly”:

Go into the Royal Exchange in London, a building more respectable than most courts; there you will find deputies from every nation assembled simply to serve mankind. There, the Jew, the Mohammedan, and the Christian negotiate with one another as if they were all of the same religion, and the only heretics are those who declare bankruptcy; there the Presbyterian trusts the Anabaptist, the Anglican accepts the word of the Quaker.¹⁸

Of course, “partisans of the so-called *doux commerce* thesis did not view markets through entirely rose-colored glasses,”¹⁹ nor did they necessarily agree on every angle.²⁰

¹⁶ David Hume, *Essays Moral, Political, Literary*, ed. Eugene F. Miller (Indianapolis: Liberty Fund, 1987), 270-271.

¹⁷ Quoted in Hirschman, “Rival Interpretations of Market Society,” 1465.

¹⁸ Voltaire, *Philosophical Letters: Or, Letters Regarding the English Nation*, ed. John Leigh, trans. Prudence L. Steiner (Indianapolis: Hackett Publishing Company, 2007), 20.

¹⁹ Nathan B. Oman, *The Dignity of Commerce: Markets and the Moral Foundations of Contract Law* (Chicago, IL: University of Chicago Press, 2016), 43.

²⁰ For nuanced examinations of Smith and Hume, see Edwin Van de Haar, “The Liberal Divide over Trade, Peace, and War,” *International Relations* 24:2 (2010): 132-154; Maria Pia Paganelli, “The Moralizing Role of Distance in Adam Smith: *The Theory of Moral Sentiments* as Possible Praise of Commerce,” *History of Political Economy* 42:3 (2010): 425-441; “Commercial Relations: From Adam Smith to Field Experiments,” in *The Oxford Handbook of Adam Smith*, ed. Christopher J. Berry, Maria Pia Paganelli, Craig Smith (New York: Oxford University Press, 2013); Maria Pia Paganelli and Reinhard Schumacher, “The Vigorous and Doux Soldier: David Hume’s Military Defence of Commerce,” *History of European Ideas* 44:8 (2018): 1141-1152; “Do Not Take Peace for Granted: Adam Smith’s Warning on the Relation Between Commerce and War,” *Cambridge Journal of Economics* 43:3 (2019): 785-797. On Voltaire and Montesquieu, see Rob

However, the overall position of the *doux commerce* proponents can be summarized by the six following points:

Commerce promotes and is associated with:

- 1. Peace**
- 2. Honesty**
- 3. Trust**
- 4. Cooperation**
- 5. Fairness**
- 6. Tolerance**

Each of these six points--which will cheekily be referred to from now on as the Big Six--is an empirical claim. This thesis will investigate the validity of each claim by reviewing the available social science literature. Several modern scholars have revived the *doux commerce* thesis both implicitly and explicitly in their work, providing various historical, philosophical, and empirical arguments in its favor.²¹ However, none of these works are as detailed and wide-ranging in their empirical assessment as the current study. By the end of this thesis, the empirical status of the *doux commerce* theory will be established.

Goodman, "Doux Commerce, Jew Commerce: Intolerance and Tolerance in Voltaire and Montesquieu," *History of Political Thought* 37:3 (2016): 530-555.

²¹ E.g., McCloskey, *The Bourgeois Virtues; Bourgeois Dignity; Bourgeois Equality*; Paul J. Zak (ed.), *Moral Markets: The Critical Role of Values in the Economy* (Princeton, NJ: Princeton University Press, 2008); "Moral Markets," *Journal of Economic Behavior and Organization* 77 (2011): 212-233; Oman, *The Dignity of Commerce*; Jason Brennan, *Why Not Capitalism?* (New York: Routledge, 2014); Jennifer A. Barker and Mark D. White (eds.), *Economics and the Virtues: Building a New Moral Foundation* (New York: Oxford University Press, 2016); Jason Brennan and Peter Jaworski, *Markets Without Limits: Moral Virtues and Commercial Interests* (New York: Routledge, 2016); Storr and Choi, *Do Markets Corrupt Our Morals?*

Outline

Chapter 1 investigates the first claim: *commerce promotes and is associated with peace*. In international relations scholarship, democracy has been identified as a major source of international peace. This has become known as the *democratic* or *liberal peace theory*. This chapter reviews the literature of the alternative *capitalist peace theory*, which argues that economic interdependence and liberalization are major components of peace. It then proceeds from this macro level view down to the microlevel by reviewing the relationship between market liberalization and (1) intrastate war, (2) state violence toward citizens, and (3) violent crime between citizens.

Chapter 2 investigates claims 2, 3, and 4: *commerce promotes and is associated with honesty, trust, and cooperation*. Using corruption as a proxy for (dis)honesty, it explores corruption's relation to trade and market liberalization. Furthermore, it explores the relation between corruption and communism (an extreme form of economic illiberalism), including former communist countries and one current communist state. It also briefly looks at the interactions between market liberalization, democracy, and corruption. The chapter then explores the relation between markets and trust/trustworthiness through both survey-based studies and economic game experiments. Finally, the chapter will conclude by looking at recent research on the connection between market contact, economic globalization, and cooperation.

Chapter 3 investigates the final two claims: *commerce promotes and is associated with fairness and tolerance*. This chapter will begin by looking at the market's relation to fair treatment based on evidence from various economic game experiments. It will then examine economic freedom's relationship with gender equality as a specific

example of fairness. Finally, it will explore the market's relation to (in)tolerant attitudes and behaviors.

Admittedly, there is quite a bit of conceptual overlap between the Big Six. Violence can be a manifestation of intolerance or perhaps a reaction to unfair treatment by corrupt systems. Distrust can be a reaction to rampant dishonesty, which leads to a breakdown of cooperation. Unfair treatment can be a manifestation of intolerance and prejudice toward certain groups. As shown above, *doux commerce* theorists bundled many of the Big Six together. While this study attempts to separate empirical investigations into the Big Six as neatly as possible, many could fall under several of the Big Six labels (especially in Chapter 3). However, the occasional blurring of conceptual lines hardly distracts from the overall project of investigating the empirical validity of *doux commerce*.

Defining Terms

This study has and will continue to employ the terms *markets*, *market liberalization*, or *market economy* as synonyms for *commerce*. Therefore, it is important to define what is exactly meant by these terms and why they have been chosen. In his ever-popular economics textbook *Principles of Economics*, Harvard's Gregory Mankiw defines a *market economy* as “an economy that allocates resources through the decentralized decisions of many firms and households as they interact in markets for goods and services.”²² He contrasts a market economy with that of a centrally-planned economy, explaining that a central planner “would need to know the value of a particular

²² N. Gregory Mankiw, *Principles of Economics*, 9th ed. (Boston, MA: Cengage Learning, 2021), 7.

good to every potential consumer in the market and the cost for every potential producer. And she would need this information not only for [a single] market but for every one of the many thousands of markets in the economy. This task is practically impossible, which explains why centrally planned economies never work well.”²³ This is why his economic principles include the following two: (1) “Trade can make everyone better off” and (2) “Markets are usually a good way to organize economic activity.”²⁴ Mankiw’s principles represent the consensus in mainstream economics regarding the growth-enhancing efficiency of an open market economy.²⁵

Another of Mankiw’s principles involves governmental improvement of market efficiency and outcomes. The market “can work its magic only if the government enforces the rules and maintains the institutions that are key to a market economy.”²⁶ In other words, certain kinds of institutions allow commerce to flourish. The kinds of institutions Mankiw generally describes are what economists Daron Acemoglu and James Robinson refer to as *inclusive institutions*:

Inclusive economic institutions...are those that allow and encourage participation by the great mass of people in economic activities that make best use of their talents and skills and that enable individuals to make the choices they wish. To be inclusive, economic institutions must feature secure property rights, an unbiased

²³ Ibid., 144-145. This is known as the “knowledge problem” in economics. E.g., F.A. Hayek, “The Use of Knowledge in Society,” *American Economic Review* 35:4 (1945): 519-530; Thomas Sowell, *Knowledge and Decisions* (New York: Basic Books, 1980); Don Lavoie, *National Central Planning: What Is Left?* (Arlington, VA: Mercatus Center at George Mason University, 2016 [1985]).

²⁴ Mankiw, *Principles of Economics*, 7.

²⁵ E.g., David Weil, *Economic Growth*, 3rd ed. (New York: Pearson Education, 2013); Paul Krugman, Robin Wells, *Economics*, 5th ed. (New York: Worth Publishers, 2017); Tyler Cowen and Alex Tabarrok, *Modern Principles of Economics*, 3rd ed. (New York: Worth Publishers, 2015); Campbell R. McConnell, Stanley L. Brue, Sean M. Flynn, *Economics: Principles, Problems, and Policies*, 21st ed. (New York: McGraw-Hill, 2018). This remains the case even though “the coverage of market failure is nearly six times that of government failure” in the average economics textbook (Rosemarie Fike and James Gwartney, “Public Choice, Market Failure, and Government Failure in Principles Textbooks,” *Journal of Economic Education* 46:2, 2015, 213).

²⁶ Mankiw, *Principles of Economics*, 9.

system of law, and a provision of public services that provides a level playing field in which people can exchange and contract; it also must permit the entry of new businesses and allow people to choose their careers...Inclusive economic institutions foster economic activity, productivity growth, and economic prosperity.²⁷

As noted above, government-enforced property rights are fundamental to a market economy.²⁸ Empirical research finds that secure private property rights are essential to the economic development and prosperity of a society.²⁹ This broad, market-oriented consensus covers a range of propositions and policies that are largely uncontroversial among economics experts,³⁰ but often conflict with public preferences.³¹ Of course, disputes over the proper amount of governmental intervention in the economy continue among economists, but these disputes take an overarching market framework for

²⁷ Daron Acemoglu and James A. Robinson, *Why Nations Fail: The Origins of Power, Prosperity, and Poverty* (New York: Crown Business, 2012), 74-75.

²⁸ Private ownership of the means of production is a core tenet of a capitalist system. See Robert L. Heilbroner, "Capitalism," in *The New Palgrave Dictionary of Economics*, 2nd ed., ed. Steven N. Durlauf, Lawrence E. Blume (New York: Palgrave Macmillan, 2008); "Capitalism" in *Oxford Dictionary of Economics*, 5th ed., ed. John Black, Nigar Hashimzade, Gareth Myles (New York: Oxford University Press, 2017); Robert Hessen, "Capitalism," in *The Concise Encyclopedia of Economics*, ed. David R. Henderson (Indianapolis: Liberty Fund, 2008); <https://www.econlib.org/library/Enc/Capitalism.html>.

²⁹ E.g., Dani Rodrik, Arvind Subramanian, Francesco Trebbi, "Institutions Rule: The Primacy of Institutions Over Geography and Integration in Economic Development," *Journal of Economic Growth* 9:2 (2004): 131-165; Daron Acemoglu, Simon Johnson, and James A. Robinson, "Institutions as a Fundamental Cause of Long-Term Growth," in *Handbook of Economic Growth*, Vol. 1A, ed. Philippe Aghion, Steven N. Durlauf (Amsterdam: Elsevier, 2005); Daron Acemoglu and Simon Johnson, "Unbundling Institutions," *Journal of Political Economy* 113:5 (2005): 949-995; Timothy Besley and Maitreesh Ghatak, "Property Rights and Economic Development," in *Handbook of Development Economics*, Vol. 5, ed. Dani Rodrik and Mark Rosenzweig (Amsterdam: Elsevier, 2010); Raj Nallari and Breda Griffith, *Understanding Growth and Poverty: Theory, Policy, and Empirics* (Washington, D.C.: World Bank, 2011).

³⁰ Daniel B. Klein and Charlotta Stern, "Economists' Policy Views and Voting," *Public Choice* 126 (2006): 331-342; Daniel B. Klein and Charlotta Stern, "Is There a Free-Market Economist in the House? The Policy Views of American Economic Association Members," *American Journal of Economics and Sociology* 66:2 (2007): 309-334; Mankiw, *Principles of Economics*, pg. 31. It should be noted that *markets* or *capitalism* are not equivalent to *libertarianism*.

³¹ Bryan Caplan, *The Myth of the Rational Voter: Why Democracies Choose Bad Policies* (Princeton, NJ: Princeton University Press, 2007); Paola Sapienza and Luigi Zingales, "Economic Experts versus Average Americans," *American Economic Review: Papers and Proceedings* 103:3 (2013): 636-642.

granted.³² “For most economists, political scientists, and philosophers,” writes political philosopher Jason Brennan, “the debate is...no longer *whether* to have a market-based economy, but *which* kind of market economy to have.”³³

Another term that will be frequently used throughout this study is *economic freedom*. This term is based on a couple of oft-cited economic indices. The first is the annual *Economic Freedom of the World* report produced by the Canada-based Fraser Institute. Its indicator—known as the Economic Freedom of the World (EFW) Index—defines economic freedom based on five major areas: (1) size of the central government, (2) legal system and the security of property rights, (3) stability of the currency, (4) freedom to trade internationally, and (5) regulation of labor, credit, and business.³⁴ The second is the *Index of Economic Freedom* (IEF) developed by the Heritage Foundation and *The Wall Street Journal*. Drawing on similar measurements as the EFW Index, the IEF provides yearly rankings of countries’ economic freedom score.³⁵ Given this criteria, *economic freedom* can largely be a synonym for *market liberalization* or a proxy for Acemoglu and Robinson’s *inclusive institutions*.

³² This consensus is not due to political homogeneity. Economics departments are some of the most politically diverse on American campuses. See Christopher F. Cardiff and Daniel B. Klein, “Faculty Partisan Affiliations in All Disciplines: A Voter-Registration Study,” *Critical Review* 17:3-4 (2005): 237-255; Mitchell Langbert, Anthony J. Quain, and Daniel B. Klein, “Faculty Voter Registration in Economics, History, Journalism, Law, and Psychology,” *Econ Journal Watch* 13:3 (2016): 422-451; “Faculty Voter Registration: Rectifying the Omission of Two Florida Universities,” *Econ Journal Watch* 14:1 (2017): 55-60.

³³ Jason Brennan, “The Free Market,” in *Oxford Research Encyclopedia of Politics*, ed. William R. Thompson (Oxford: Oxford University, 2019):

<https://oxfordre.com/politics/politics/abstract/10.1093/acrefore/9780190228637.001.0001/acrefore-9780190228637-e-115?rskey=eyB1Tg&result=3>

³⁴ *Economic Freedom of the World: 2020 Annual Report*, ed. James Gwartney, Robert Lawson, Joshua Hall, Ryan Murphy (Vancouver, B.C.: Fraser Institute, 2020).

³⁵ 2020 Index of Economic Freedom; <https://www.heritage.org/index/>

Overall, private ownership of scarce resources combined with decentralized decision-making regarding the allocation of those resources not only improves living standards, but allows for a greater number of individuals to freely engage in commerce with one another. In other words, *market liberalization* or *economic freedom* is predominantly ***the removal of political and legal barriers to exchange and economic association, which provides individuals with greater access to the market***. This greater *access to the market* means potentially greater *engagement with the market*, making it a useful proxy for *commerce*.

Varieties of Market Economies

The indices above indicate that economies can take slightly different shapes, yet still reliably maintain the label of *market economy*. For example, a country may have a bigger central government, but freer trade and fewer regulations (or vice versa). Some scholars draw a distinction between the *scope* (range of activities) and *scale* (size) of government. Economists Christopher Coyne and Abigail Hall note that “the government's budget might stay relatively flat over time, but state actors can use the same amount of resources to intrude into the lives of its citizens in new and novel ways that curtail their freedom from external interference. This is especially likely as the real cost of producing the goods and services associated with social control falls because of technological advances over time.”³⁶ Jason Brennan further illustrates this point by distinguishing between

³⁶ Christopher J. Coyne and Abigail R. Hall, *Tyranny Comes Home: The Domestic Fate of U.S. Militarism* (Stanford, CA: Stanford University Press, 2018), 13-15. Coyne and Hall are building on the work of Robert Higgs. See his *Crisis and Leviathan: Critical Episodes in the Growth of American Government* (New York: Oxford University Press, 1987).

the *administrative* state—which tries to control, regulate, manipulate, and manage the economy—[and] the *social insurance* state—which provides tax-financed education, healthcare, and unemployment insurance. The administrative state directly limits and interferes with individuals’ economic freedom...A social insurance state may impose high taxes, which can reduce some individuals’ ability to achieve their ends (though tax-funded welfare may help other individuals’ achieve theirs). But the administrative state directly restricts individuals’ choices and/or imposes various rules limiting the terms of voluntary trade.³⁷

Relying on the EFW and IEF indices, Brennan points out that social democratic Denmark is actually higher than the U.S. in a number of economic freedom rankings, from property rights to international trade to business freedom. As former Danish prime minister Lars Rasmussen stated in 2015, “I know that some people in the US associate the Nordic model with some sort of socialism...Denmark is far from a socialist planned economy. Denmark is a market economy.”³⁸

Sweden is another country whose economy is often confused for something other than a market economy, despite being one of the most economically free nations on the planet.³⁹ Sweden grew rich in the 20th century thanks to property rights, free trade, and a

³⁷ Brennan, “The Free Market.” Randall Holcombe has made similar distinctions between the “welfare state” and “political capitalism”: “The foundation of the welfare state is transfers, whereas the foundation of political capitalism is government management of economic activity...The welfare state is more associated with government spending while political capitalism is more closely associated with the regulatory state” (*Political Capitalism: How Economic and Political Power Is Made and Maintained*. Cambridge, UK: Cambridge University Press, 2018, 15).

³⁸ Matthew Yglesias, “Denmark’s Prime Minister Says Bernie Sanders is Wrong to Call His Country Socialist,” *Vox* (Oct. 31, 2015): <https://www.vox.com/2015/10/31/9650030/denmark-prime-minister-bernie-sanders>

³⁹ Sweden has been in the freest quartile of the EFW Index for the last couple decades. It only recently dropped to the second freest quartile (46 out of 162 countries) in the latest report, *despite* its economic freedom score going slightly up from the previous year (7.56 to 7.58). See “Economic Freedom of the World in 2018,” in *Economic Freedom of the World: 2020 Annual Report* and “Economic Freedom of the World in 2017,” in *Economic Freedom of the World: 2019 Annual Report*, ed. James Gwartney, Robert Lawson, Joshua Hall, Ryan Murphy (Vancouver, B.C.: Fraser Institute, 2019). Similar to Denmark, Sweden ranks higher than the U.S. in property rights, business freedom, monetary freedom, and trade freedom, but ranks slightly lower overall. See *2020 Index of Economic Freedom*; <https://www.heritage.org/index/visualize?cnts=sweden|unitedstates&src=ranking>

lack of governmental corruption. Its economic problems from 1970 to 1995 stemmed from a combination of Keynesianism, subsidies for failing industries, new labor market regulations, high marginal taxes, and currency devaluation. Economic recovery and growth since the 1990s has been due to multiple reforms, including deregulation and decentralization, tax system restructuring, increased work incentives, enhanced competition, greater consumer choice in the public sector, and more global integration via the European Union.⁴⁰ “At the beginning of the 1980s,” writes economist Andreas Bergh, “the Swedish economy was a highly regulated and closed economy. Today, Sweden is one of the most globalized countries in the world. Over the past few decades, Sweden has been subject to one of the most rapid increases of globalization and economic liberalization in the world...Outside Swedish borders, the perception of Sweden is often rather dated and, to some extent, still characterized by the Sweden of yesteryear.”⁴¹ While social democracies such as the Nordic countries provide generous safety nets,⁴² their welfare systems are paid for by productive market economies. Many of these countries have been somewhat successful at disentangling the administrative state from the social insurance state.⁴³

Clarification

⁴⁰ See Andreas Bergh, *Sweden and the Revival of the Capitalist Welfare State* (Northampton, MA: Edward Elgar, 2008); “What are the Policy Lessons from Sweden? On the Rise, Fall and Revival of a Capitalist Welfare State,” *New Political Economy* 19:5 (2014): 662-694.

⁴¹ Bergh, *Sweden and the Revival of the Capitalist Welfare State*, 1.

⁴² With potential trade-offs in innovation, including healthcare. See Daron Acemoglu, James A. Robinson, Thierry Verdier, “Asymmetric Growth and Institutions in an Interdependent World,” *Journal of Political Economy* 125:5 (2017): 1245-1305; Dana Goldman and Darius Lakdawalla, “The Global Burden of Medical Innovation,” USC Schaeffer White Paper (Jan. 2018): <https://healthpolicy.usc.edu/research/global-burden-of-medical-innovation/>

⁴³ See Andreas Bergh, “Hayekian Welfare States: Explaining the Coexistence of Economic Freedom and Big Government,” *Journal of Institutional Economics* 16:1 (2020): 1-12.

It is important to clarify what this thesis is *not* investigating. First and foremost, this study is *not* seeking to answer if commerce is the *only* or even *primary* reason for the Big Six. This would be far too reductionist. Other factors such as tradition, religion, democracy, etc., certainly play a role. This thesis is simply investigating the relationship (if any) between commerce and the Big Six using the best available empirical data. Furthermore, this study is focusing *only* on the Big Six. The topic of moral improvement is controversial and involves deeply philosophical questions about what constitutes morality. This thesis does *not* investigate if commerce improves *all* moral attitudes and behaviors, but attempts to stick closely to the limited claims of the *doux commerce* theorists. Finally, this study will not involve itself in the commodification debates over what should and should not be for sale. This is a different argument outside the scope of this thesis. In the author's estimate, the most compelling work to date on this topic is Jason Brennan and Peter Jaworski's *Markets Without Limits*. As they explain toward the beginning of their book, markets in certain things (e.g., child pornography, nuclear weapons, slaves) are not wrong because of *the market*. They are wrong because the products *themselves* are wrong: "It's wrong to possess child pornography even if you acquired it for free. The wrongness of markets in child pornography does not originate in the market, but in the existence of the traded item in the first place."⁴⁴ Those interested in this debate will find that this current study adds nothing to it. The author recommends engaging with Brennan and Jaworski's work instead.

⁴⁴ Brennan and Jaworski, *Markets Without Limits*, 11.

Chapter 1

“A PACIFIC SYSTEM”:

THE CAPITALIST PEACE THEORY

In *The Better Angels of Our Nature*, Harvard psychologist Steven Pinker documents the worldwide decline in violence and war throughout history.⁴⁵ In doing so, he presents multiple reasons for this decline,⁴⁶ including:

- **Leviathan:** third-party enforcement and the rule of law.
- **Feminization:** female-friendly environments and values.⁴⁷
- **The Expanding Circle:** increased empathy through greater literacy, urbanization, mobility, and mass media access.
- **The Escalator of Reason:** increased use of reason through these same mediums.⁴⁸

Another major contender for the driver of this peaceful trend is known among international relations scholars as the democratic peace theory. Pinker summarizes,

Democratic government is designed to resolve conflicts among citizens by consensual rule of law, and so democracies should externalize this ethic in dealing

⁴⁵ Steven Pinker, *The Better Angels of Our Nature: Why Violence Has Declined* (New York: Viking, 2011). See also Steven Pinker, *Enlightenment Now: The Case for Reason, Science, Humanism, and Progress* (New York: Penguin, 2018), Ch. 11-13; Johan Norberg, *Progress: Ten Reasons to Look Forward to the Future* (Oxford: Oneworld, 2016), Ch. 5; Max Roser, “War and Peace,” Our World In Data (2016): <https://ourworldindata.org/war-and-peace>

⁴⁶ Pinker, *The Better Angels of Our Nature*, Ch. 9.

⁴⁷ See also Valerie M. Hudson, Bonnie Ballif-Spanvill, Mary Caprioli, Chad F. Emmett, *Sex and World Peace* (New York: Columbia University Press, 2012).

⁴⁸ See also Michael Shermer, *The Moral Arc: How Science Makes Us Better People* (New York: St. Martin’s Press, 2015).

with other states. Also, every democracy knows the way every other democracy works...The resulting trust among democracies should nip in the bud the Hobbesian cycle in which the fear of preemptive attack on each side tempts both into launching a preemptive attack. Finally, since democratic leaders are accountable to their people, they should be less likely to initiate stupid wars that enhance their glory at the expense of their citizenries' blood and treasure.⁴⁹

While Pinker finds various counterexamples and “headaches” with the theory, the democratic peace theory has nonetheless enjoyed substantial scholarly support for some time.⁵⁰ Pertinent to this study, Pinker offers yet another potential cause for the decline in violence: the Capitalist Peace.⁵¹ Invoking the *doux commerce* supporters above, Pinker argues that trade openness and economic freedom largely reduce the incentives of war and brutalization. Though the democratic peace theory still holds considerable weight among scholars, a wave of empirical research over the last couple decades has begun to shift the consensus toward the capitalist peace theory.⁵² Academics continue to debate over *how much* trade and economic freedom contributes to peace, but democratic peace theorists now include economic interdependence as an essential element within the broader liberal peace project.⁵³

⁴⁹ Pinker, *The Better Angels of Our Nature*, 278.

⁵⁰ A classic text on the topic is Bruce Russett and John R. Oneal, *Triangulating Peace: Democracy, Interdependence, and International Organizations* (New York: W.W. Norton and Co., 2001). For a fairly recent review of the theory and evidence, see Dan Reiter, “Is Democracy a Cause of Peace?” in *Oxford Research Encyclopedia of Politics* (Oxford: Oxford University, 2017): <https://oxfordre.com/politics/view/10.1093/acrefore/9780190228637.001.0001/acrefore-9780190228637-e-287>

⁵¹ Pinker, *The Better Angels of Our Nature*, 287-288.

⁵² For reviews of the capitalist peace literature, see Erich Weede, “The Capitalist Peace,” in *The Handbook on the Political Economy of War*, ed. Christopher J. Coyne, Rachel L. Mathers (Northampton, MA: Edward Elgar, 2011); “The Expansion of Economic Freedom and the Capitalist Peace,” in *Oxford Research Encyclopedia of Politics* (Oxford: Oxford University, 2016): <https://oxfordre.com/politics/view/10.1093/acrefore/9780190228637.001.0001/acrefore-9780190228637-e-276>

⁵³ E.g., John R. Oneal and Bruce Russett, “The Classical Liberals Were Right,” *International Studies Quarterly* 40:2 (1997): 267-294; Russett and Oneal, *Triangulating Peace*; John R. Oneal, “Measuring

Of course, those in the realist tradition of international relations scholarship continue to balk at liberal claims, emphasizing instead the conflicting interests and power struggles between sovereign nation-states.⁵⁴ Unfortunately, much of the realist response is lacking in quantitative data, which makes their work less useful in assessing the empirical value of the *doux commerce* theory. Case in point, a recent article⁵⁵ by prominent realist scholar John Mearsheimer features no real quantitative analysis or data. Furthermore, he relies heavily on work from the 1980/90s, ignoring the last two decades of scholarship on the capitalist peace theory. Georgetown's Paul Miller finds it "remarkable...that, despite decades of scholarship and change in global politics, today's structural realists have revised or changed almost none of their views."⁵⁶ While realists may be correct regarding the *limits* of the liberal economic order when it comes to peace, the question at hand is whether the liberal economic order contributes to peace *at all*.

Interstate Violence -- Part A:

International Trade and Economic Interdependence

Interdependence and Its Pacific Benefits: A Reply to Gartzke and Li," *Journal of Peace Research* 40:6 (2003): 721-725; John R. Oneal, Bruce Russett, and Michael L. Berbaum, "Causes of Peace: Democracy, Interdependence, and International Organizations, 1885-1992," *International Studies Quarterly* 47:3 (2003): 371-393; Reiter, "Is Democracy a Cause of Peace?"; Steve Chan, "Programmatic Research on the Democratic Peace," in *Guide to the Scientific Study of International Processes*, ed. Sara McLaughlin Mitchell, Paul F. Diehl, and James D. Morrow (West Sussex: Wiley-Blackwell, 2012).

⁵⁴ For an overview of the Realist position, see W. Julian Korab-Karpowicz, "Political Realism in International Relations," *The Stanford Encyclopedia of Philosophy*, ed. Edward N. Zalta (Summer 2018): <https://plato.stanford.edu/entries/realism-intl-relations/>

⁵⁵ John J. Mearsheimer, "Bound to Fail: The Rise and Fall of the Liberal International Order," *International Security* 43:4 (2019): 7-50.

⁵⁶ Paul D. Miller, "Structural Realism Has No Clothes," *Law and Liberty* (April 15, 2019): <https://lawliberty.org/book-review/structural-realism-has-no-clothes/>

International trade currently receives the greatest attention when it comes to the capitalist peace theory and an abundance of empirical studies finds that economic interdependence indeed reduces interstate military conflict.⁵⁷ As one pair of scholars states, “The positive relationship between economic interdependence and peaceful relationships is so well established that research now focuses on the conditions that cause variations.”⁵⁸ Collen Goenner’s research appears to solidify the adversarial relationship between trade and violence: not only does trade reduce conflict, conflict in turn reduces trade.⁵⁹ Blomberg and Hess similarly find that “violence is equivalent approximately to a

⁵⁷ E.g., Solomon W. Polachek, “Conflict and Trade,” *Journal of Conflict Resolution* 24:1 (1980): 55-78; Erik Gartzke, Quan Li, and Charles Boehmer, “Investing in the Peace: Economic Interdependence and International Conflict,” *International Organization* 55:2 (2001): 391-438; Erik Gartzke, “The Capitalist Peace,” *American Journal of Political Science* 51 (2007): 166-191; Solomon W. Polachek, “How Trade Affects International Interactions,” *The Economics of Peace and Security Journal* 2:2 (2007): 60-68; Solomon W. Polachek and Carlos Seiglie, “Trade, Peace, and Democracy: An Analysis of Dyadic Dispute,” in *Handbook of Defense Economics: Defense in a Globalized World, Vol. 2*, ed. Todd Sandler and Keith Hartley (Amsterdam: North-Holland, 2007); John Robst, Solomon Polachek and Yuan-Ching Chang, “Geographic Proximity, Trade, and International Conflict/Cooperation,” *Conflict Management and Peace Science* 24:1 (2007): 1-24; Han Dorussen and Hugh Ward, “Trade Networks and the Kantian Peace,” *Journal of Peace Research* 47:1 (2010): 29-42; Solomon Polachek and Jun Xiang, “How Opportunity Costs Decrease the Probability of War in an Incomplete Information Game,” *International Organization* 64:1 (2010): 133-144; Havard Hegre, John R. Oneal, and Bruce Russett, “Trade Does Promote Peace: New Simultaneous Estimates of the Reciprocal Effects of Trade and Conflict,” *Journal of Peace Research* 47:6 (2010): 763-774; Solomon W. Polachek, Carlos Seiglie, and Jun Xiang, “Globalization and International Conflict: Can Foreign Direct Investment Increase Cooperation Among Nations?” in *The Oxford Handbook of the Economics of Peace and Conflict*, ed. Michelle R. Garfinkel, Stergios Skaperdas (New York: Oxford University Press, 2012); Hailay G. Beyene, “Trade, Interdependence and its Effect on Interstate Conflict: The Case of the East African Region,” *Journal of Economic Cooperation and Development* 35:4 (2014): 25-60; Jong-Wha Lee and Ju Hyun Pyun, “Does Trade Integration Contribute to Peace?” *Review of Development Economics* 20:1 (2016): 327-344; Thomas S. Szayna, Angela O’Mahony, Jennifer Kavanagh, Stephen Watts, Bryan Frederick, Tova C. Norlen, Phoenix Voorhies, *Conflict Trends and Conflict Drivers: An Empirical Assessment of Historical Conflict Patterns and Future Conflict Projections* (Santa Monica, CA: RAND Corporation, 2017); https://www.rand.org/pubs/research_reports/RR1063.html; Reshad Ahsan, Laura Panza, Young Song, “Atlantic Trade and the Decline of Conflict in Europe,” CEPR DP14206 (2020): https://cepr.org/active/publications/discussion_papers/dp.php?dpno=14206; Oneal and Russett, “The Classical Liberals Were Right”; *Triangulating Peace*; Weede, “The Capitalist Peace”; “The Expansion of Economic Freedom and the Capitalist Peace.”

⁵⁸ Jean-Frederic Morin and Jonathan Paquin, *Foreign Policy Analysis: A Toolbox* (London: Palgrave Macmillan, 2018), 149.

⁵⁹ Cullen F. Goenner, “Simultaneity Between Trade and Conflict: Endogenous Instruments of Mass Destruction,” *Conflict Management and Peace Science* 28:5 (2011): 459-477. A 2010 study finds no robust evidence that trade reduces conflict, but does find that conflict reduces trade. See Omar M.G. Keshk,

30% tariff” on trade.⁶⁰ This further establishes that trade and conflict are to some degree antithetical to each other.

A few studies offer qualifiers when it comes to trade’s pacific nature. Patrick McDonald finds that it is not merely *trade* that reduces conflict, but *free trade*:

Free trade, and not just trade, promotes peace by removing an important foundation of domestic privilege--protective barriers to trade--that enhances the domestic power of societal groups likely to support war, reduces the capacity of free-trading interests to limit aggression in foreign policy, and creates the mechanism by which the state can build supportive coalitions for war. A series of statistical tests supports these claims by showing that lower regulatory barriers to trade were associated with a reduction in military conflict between states during the post-World War II era.⁶¹

Aaronson, Abouhard, and Wang find no evidence that mere membership in GATT/WTO reduces conflict. However, trade between members in which both countries benefit is shown to reduce military conflict.⁶² Han Dorussen finds that trade overall reduces conflict, but the pacific effects tend to be industry specific. Trade in manufactured goods has a stronger pacifying effect than agricultural trade or trade in raw materials.⁶³ Gelpi and Grieco find that trade reduces the use of military force, but only when the trading nations are democratic. They explain that “trade may represent part of

Rafael Reuveny, Brian M. Pollins, “Trade and Conflict: Proximity, Country Size, and Measures,” *Conflict Management and Peace Science* 27:1 (2010): 3-27.

⁶⁰ S. Brock Blomberg and Gregory D. Hess, “How Much Does Violence Tax Trade?” *The Review of Economics and Statistics* 88:4 (2006): 609.

⁶¹ Patrick J. McDonald, “Peace Through Trade or Free Trade?” *Journal of Conflict Resolution* 48:4 (2004): 549.

⁶² Susan Ariel Aaronson, M. Rodwan Abouhard, and K. Daniel Wang, “The Liberal Illusion Is Not a Complete Delusion: The WTO Helps Member States Keep the Peace Only When It Increases Trade,” *Global Economy Journal* 15:4 (2015): 455-484.

⁶³ Han Dorussen, “Heterogenous Trade Interests and Conflict: What You Trade Matters,” *Journal of Conflict Resolution* 50:1 (2006): 87-107. See also Quan Li and Rafael Reuveny, “Does Trade Prevent or Promote Interstate Conflict Initiation?” *Journal of Peace Research* 48:3 (2011): 423-435.

the glue that cements the ‘liberal peace’ together,” but “increased trade dependence cannot by itself create a ‘zone of peace’.”⁶⁴ Bell and Long find a *conditional* pacific effect of trade.⁶⁵ When it comes to territorial disputes or military-diplomatic strategies, trade *decreases* the likelihood of military force. However, when it comes to regime issues, domestic policies, or state conditions, economic interdependence *increases* the chance of military intervention (e.g., the U.S.-backed coup in trade partner Guatemala).

Lee and Rider confirm Bell and Long’s findings specifically about trade and territorial disputes: “Economic interdependence decreases the likelihood of militarized disputes and arms races.”⁶⁶ However, Lu and Thies go beyond both Lee and Rider and Bell and Long: between 1885 and 2000, their dataset shows that trade interdependence reduced militarized conflicts over territory, policy, and regime.⁶⁷

A handful of studies have questioned the pacific effects of economic interdependence,⁶⁸ but the scholarly community has responded in force.⁶⁹ As Erich Weede explains in his review of the literature,

⁶⁴ Christopher F. Gelpi and Joseph M. Grieco, “Democracy, Interdependence, and the Sources of the Liberal Peace,” *Journal of Peace Research* 45:1 (2008): 30.

⁶⁵ Sam R. Bell and Andrew G. Long, “Trade Interdependence and the Use of Force: Do Issues Matter?” *International Interactions* 42:5 (2016): 750-773.

⁶⁶ Hoon Lee and Toby J. Rider, “Evaluating the Effects of Trade on Militarized Behavior in the Context of Territorial Threat,” *Foreign Policy Analysis* 14:1 (2018): 45.

⁶⁷ Lingyu Lu and Cameron G. Thies, “Trade Interdependence and the Issues at Stake in the Onset of Militarized Conflict: Exploring a Boundary Condition of Pacific Interstate Relations,” *Conflict Management and Peace Science* 27:4 (2010): 347-368.

⁶⁸ E.g., Katherine Barbieri, “Economic Interdependence: A Path to Peace or a Source of Interstate Conflict?” *Journal of Peace Research* 33:1 (1996): 29-49; *The Liberal Illusion: Does Trade Promote Peace?* (Ann Arbor: University of Michigan Press, 2002).

⁶⁹ E.g., Erik Gartzke and Quan Li, “War, Peace, and the Invisible Hand: Positive Political Externalities of Economic Globalization,” *International Studies Quarterly* 47 (2003): 561-586; John R. Oneal, “Measuring Interdependence and Its Pacific Benefits”; Jun Xiang, Xiaohong Xu, George Keteku, “Power: The Missing Link in the Trade Conflict Relationship,” *Journal of Conflict Resolution* 51:4 (2007): 646-663.

[These skeptical studies] suffer from at least one of the following defects. Either they do not adequately control for conditions that raise the risk of war in a dyad, such as contiguity, distance, power balance, or one of them being a big power... Sometimes it is useful to distinguish between those military conflicts that remain at the level of exchanging threats and those that lead to fatalities. In case of divergent findings, I prefer conflict involvement rather than initiation as the dependent variable. In my view, coding “initiation” is nearly as difficult as coding “war guilt.” If one compares conflict escalation to climbing a ladder, then initiation rarely justifies a 0 or 100% attribution to one party while absolving the other one. That is why reference to guilt or initiation should be avoided in large-N studies. In addition, dyadic trade should not be standardized by foreign trade instead of GDP. If all of these shortcomings are avoided, then almost all studies support the proposition “peace by free trade.” There is a rather strong case for a commercial peace or peace by trade.⁷⁰

One potential, oft-cited hole in the capitalist peace theory is the outbreak of World War I. However, as Gartzke and Lupu note, “focusing on the outbreak of World War I to test this theory is problematic because it is a case chosen based on the dependent variable, the outbreak of war.”⁷¹ More importantly, they point out that the Great War actually started with two less economically interdependent nations: Austria-Hungary and Serbia. Military alliances with more interdependent (e.g., Germany and Russia) powers essentially dragged these other countries into the conflict. “Economic integration was incapable of forestalling conflict where integration had yet to occur.”⁷²

Interstate Violence -- Part B: Market Systems

“International trade is just one facet of a country’s commercial spirit,” writes Pinker. “Others include an openness to foreign investment, the freedom of citizens to

⁷⁰ Weede, “The Expansion of Economic Freedom and the Capitalist Peace.”

⁷¹ Erik Gartzke and Yonatan Lupu, “Trading on Perceptions: Why World War I Was Not a Failure of Economic Interdependence,” *International Security* 36:4 (2012): 122.

⁷² *Ibid.*, 116-117.

enter into enforceable contracts, and their dependence on voluntary financial exchanges as opposed to self-sufficiency, barter, or extortion.”⁷³ Beyond economic interdependence, numerous studies have examined how economic systems impact militarization. Drawing on the EFW Index, Erik Gartzke finds that higher levels of economic freedom predict a lower probability of militarized interstate disputes.⁷⁴ Gartzke shows elsewhere that more open economies with globally-integrated markets are less likely to experience interstate conflicts.⁷⁵ Patrick McDonald similarly examines the domestic economy and finds that economies with higher levels of public property—i.e., greater governmental fiscal autonomy—have governments that are more willing to engage in military conflicts.⁷⁶

Over the last two decades, political scientist Michael Mousseau has mounted an avalanche of evidence in favor of what he calls the *contractualist peace*.⁷⁷ “Contractualist economy,” write Michael Mousseau and Xiongwei Cao, “is market-oriented development, characterized with extensive and regularized transactions among strangers

⁷³ Pinker, *The Better Angels of Our Nature*, 287.

⁷⁴ Erik Gartzke, “Economic Freedom and Peace,” in *Economic Freedom of the World: 2005 Annual Report*, ed. James Gwartney, Robert Lawson (Vancouver, B.C.: Fraser Institute, 2005).

⁷⁵ Gartzke, “The Capitalist Peace”; Erik Gartzke and J. Joseph Hewitt, “International Crises and the Capitalist Peace,” in *Assessing the Capitalist Peace*, ed. Gerald Schneider, Nils Petter Gleditsch (New York: Routledge, 2013).

⁷⁶ Patrick J. McDonald, “The Purse Strings of Peace,” *American Journal of Political Science* 51:3 (2007): 569-582; “Capitalism, Commitment, and Peace,” *International Interactions* 36:2 (2010): 146-168; *The Invisible Hand of Peace: Capitalism, The War Machine, and International Relations Theory* (New York: Cambridge University Press, 2009).

⁷⁷ See Michael Mousseau, “Market Prosperity, Democratic Consolation, and Democratic Peace,” *Journal of Conflict Resolution* 44:4 (2000): 472-507; “The Nexus of Market Society, Liberal Preferences, and Democratic Peace: Interdisciplinary Theory and Evidence,” *International Studies Quarterly* 47 (2003): 483-510; “Comparing New Theory with Prior Beliefs: Market Civilization and the Democratic Peace,” *Conflict Management and Peace Science* 22 (2005): 63-77; “The Social Market Roots of Democratic Peace,” *International Security* 33:4 (2009): 52-86; “A Market-Capitalist or a Democratic Peace?” in *What Do We Do About War?*, 2nd ed., ed. John A. Vasquez (Lanham: Rowman and Littlefield, 2012); “The Democratic Peace Unraveled: It’s the Economy,” *International Studies Quarterly* 57 (2013): 186-197; “Grasping the Scientific Evidence: The Contractualist Peace Supersedes the Democratic Peace,” *Conflict Management and Peace Science* 35:2 (2018): 175-192.

that require an element of trust...It is the pursuit of foreign markets that lie at the root of the contractualist peace. With deeply embedded norms of market exchange at home, individuals in market cultures are more likely than clientelist ones to roam the world seeking contracts of exchange...Since the foremost goal of contractualist leaders is market growth at home, among them there can be no war.”⁷⁸ Mousseau describes contractualist economies as “social markets” rather than “free markets.” This is because governments in contractualist economies “are under constant pressure from the public to maintain a highly inclusive marketplace, particularly as regards labor. The “social-market” label applies to the social democracies of Scandinavia as well as to the supposed freer-market democracies such as Switzerland and the United States.”⁷⁹

Mousseau uses a wide-range of proxies for contractualist norms. In some of his earliest studies, GDP per capita serves as a proxy “since developed democracies should be the democracies with the highest intensity of contract norms.”⁸⁰ One of the more interesting proxies is life insurance per capita. “Life insurance contracts are perhaps the most-reliably non-self-enforcing type of contract there is because the delivery of service is expected only after the death of the policyholder: Being deceased, the policyholder cannot possibly sanction the insurance company for failure to comply.”⁸¹ Mousseau also

⁷⁸ Michael Mousseau and Xiongwei Cao, “How the Contractualist Peace Overtook the Democratic Peace,” in *Oxford Research Encyclopedia of Politics* (Oxford: Oxford University, 2017): <https://oxfordre.com/politics/view/10.1093/acrefore/9780190228637.001.0001/acrefore-9780190228637-e-289>

⁷⁹ Michael Mousseau, “The End of War: How a Robust Marketplace and Liberal Hegemony are Leading to Perpetual World Peace,” *International Security* 44:1 (2019): 166. See also Michael Mousseau, Omer F. Orsun, Jameson Lee Ungerer, Demet Yalcin Mousseau, “Capitalism and Peace: It’s Keynes, not Hayek,” in *Assessing Capitalist Peace*.

⁸⁰ Mousseau and Cao, “How Contractualist Peace Overtook the Democratic Peace.” See also Michael Mousseau, Havard Hegre, and John R. Oneal, “How the Wealth of Nations Conditions the Liberal Peace,” *European Journal of International Relations* 9:2 (2003): 277-317.

⁸¹ Mousseau and Cao, “How Contractualist Peace Overtook the Democratic Peace.”

uses investment contracts per capita as a proxy for contractualist economies. “Like insurance contracts, investment contracts are reliably dependent on third-party (state) enforcement, since they have strong inter-temporal dimensions.” Finally, Mousseau employs migration data as a proxy for contract-intensive economies. “By definition a nation with a contractualist economy must have a robust labor market...and the quest for economic opportunity is the most basic motive for migration.”⁸² In each of these studies, the contractualist economy emerges as the arbiter of peace.

Mousseau also finds in an analysis of UN voting patterns from 1946 to 2010 that “states with contractualist and export-oriented economies tend to agree on issues voted on in the United Nations General Assembly, regardless of their power status or capability, because they have common interests in a global order based on self-determination.” This can account for “the decline of war” and “why the probability of war among market democracies is practically zero.”⁸³ Perhaps controversially, Mousseau claims in one of his latest studies:

the state of evidence does not support the existence of a correlation of democracy with peace, in four simple ways: (1) no one has been able to show democracy significant in a clear-cut regression in analyses of fatal MIDs, crises, or wars; (2) every empirical defense of democracy has been rebutted, and the rebuttals remain uncontested despite multiple opportunities to contest them; (3) there is no democratic peace in the nineteenth century, when there were no contractualist dyads; and (4) new analyses with new data show, again, that democracies without contractualist economies are not in peace. With this study, a total of thirty

⁸² Mousseau, “Grasping the Scientific Evidence,” 178.

⁸³ Mousseau, “The End of War,” 194-195. This is supported by recent research that “find[s] as countries become greater economic friends in terms of the welfare effects of their productivity growth, they become greater political friends in terms of the similarity of their foreign policy stances, as measured by United Nations voting patterns and strategic rivalries” (Benny Kleinman, Ernest Liu, Stephen J. Redding, “International Friends and Enemies,” NBER Working Paper No. 27587, July 2020, 47; <https://www.nber.org/papers/w27587>).

regressions are now in print documenting that the contractualist peace supersedes the democratic peace.⁸⁴

Critics of Mousseau spend most of their time defending the pacifying effects of *democracy* or recommending a tightening of capitalist peace definitions and methodologies.⁸⁵ However, they concede that “many liberal economic factors could be important in reducing the incentives and tendency for states to wage war against each other, including secure property rights, enforceable contracts, high human capital, gains from trade and labor mobility, economic freedom induced growth, capital openness, and greater mobility of capital. These factors also largely seem to be mutually reinforcing, and are deeply historically entwined in the formation of early institutions.”⁸⁶ In short, even *if* some scholars (such as Mousseau) *overstate* the case for capitalist peace, this in no way detracts from the evidence that it at least plays *some role* in the promotion of peace. Essentially, the academic literature strongly supports the pacifying effects of

⁸⁴ Michael Mousseau, “Four Ways We Know the Democratic Peace Correlation Does Not Exist in the State of Knowledge,” *Peace Economics, Peace Science and Public Policy* 24:4 (2019): 6; 20190023. doi: <https://doi-org.proxy1.library.jhu.edu/10.1515/peps-2019-0023>

⁸⁵ E.g., Allan Dafoe, John R. Oneal, Bruce Russett, “The Democratic Peace: Weighing the Evidence and Cautious Inference,” *International Studies Quarterly* 57:1 (2013): 201-214; Allan Dafoe and Bruce Russett, “Does Capitalism Account for the Democratic Peace? The Evidence Still Says No,” in *Assessing the Capitalist Peace*, ed. Gerald Schneider, Nils Petter Gleditsch (New York: Routledge, 2013); James Lee Ray and Allan Dafoe, “Democratic Peace versus Contractualism,” *Conflict Management and Peace Science* 35:2 (2018): 193-203; Gerald Schneider and Nils Petter Gleditsch, “The Capitalist Peace: The Origins and Prospects of a Liberal Idea,” *International Interactions* 36 (2010): 107-114; Gerald Schneider, “Peace Through Globalization and Capitalism? Prospects of Two Liberal Propositions,” *Journal of Peace Research* 51:2 (2014): 173-183; “Capitalist Peace Theory: A Critical Appraisal,” in *Oxford Research Encyclopedia of Politics* (Oxford University, 2017): <https://oxfordre.com/politics/abstract/10.1093/acrefore/9780190228637.001.0001/acrefore-9780190228637-e-314?rskey=f2klvu&result=3>. For responses to these criticisms, see Michael Mousseau, Omer F. Orsun, and Jameson Lee Ungerer, “Does the Market-Capitalist Peace Supersede the Democratic Peace? The Evidence Still Says Yes,” in *Assessing the Capitalist Peace*; Mousseau, “Grasping the Scientific Evidence.”

⁸⁶ Dafoe and Russett, “Does Capitalism Account for the Democratic Peace?”, 121.

economic liberalization and interdependence. This is one-step toward giving empirical validity to the *doux commerce* thesis.⁸⁷

Intrastate Violence

The evidence above indicates that commerce plays a role in the reduction of *interstate* violence. However, is there any evidence that commerce reduces *intrastate* violence as well? A World Bank report recognizes that when it comes to civil wars,

economic characteristics matter more than has usually been recognized. If a country is in economic decline, is dependent on primary commodity exports, and has a low per capita income and that income is unequally distributed, it is at high risk of civil war...Low and declining incomes, badly distributed, create a pool of impoverished and disaffected young men who can be cheaply recruited by “entrepreneurs of violence.” In such conditions the state is also likely to be weak, nondemocratic, and incompetent, offering little impediment to the escalation of rebel violence, and maybe even inadvertently provoking it. Natural resource wealth provides a source of finance for the rebel organization and encourages the local population to support political demands for secession.⁸⁸

⁸⁷ Public knowledge also plays a role in attitudes toward interstate conflict. Higher knowledge regarding economic interdependence correlates with support for peaceful solutions to international disputes. See Seiki Tanaka, Atsushi Tago, and Kristian Skrede Gleditsch, “Seeing the Lexus for the Olive Trees? Public Opinion, Economic Interdependence, and Interstate Conflict,” *International Interactions* 43:3 (2017): 375-396; Saumitra Jha and Moses Shayo, “Valuing Peace: The Effects of Financial Market Exposure on Votes and Political Attitudes,” *Econometrica* 87:5 (2019): 1561-1588.

⁸⁸ Paul Collier, V.L. Elliott, Havard Hegre, Anke Hoeffler, Marta Reynal-Querol, Nicholas Sambanis, *Breaking the Conflict Trap: Civil War and Development Policy* (Washington, D.C.: World Bank, 2003), 4. Indra de Soysa also finds that predatory governments encourage black-market activities, which ultimately invest in “rebellion-specific capital.” These shadow economies provide the lifeblood for rebel forces and the duration of civil conflicts. See Indra de Soysa and Krishna Chaitanya Vadlamannati, “Free Markets and Civil Peace: Some Theory and Empirical Evidence,” in *Economic Freedom of the World: 2014 Annual Report*, ed. James Gwartney, Robert Lawson, Joshua Hall (Vancouver, BC: Fraser Institute, 2014); Indra de Soysa, “Predatory Government and the Feasibility of Rebellion: A Micro Logic of the Capitalist Peace,” in *Oxford Research Encyclopedia of Politics* (Oxford University, 2017): <https://oxfordre.com/politics/view/10.1093/acrefore/9780190228637.001.0001/acrefore-9780190228637-e-219>

If the evidence implicating poverty in the onset of civil conflict is to be believed,⁸⁹ then inclusive economic institutions may undercut intrastate war by simply reducing the deprivation that breeds it. However, researchers have produced robust evidence that market liberalization *itself* reduces civil violence. In particular, Indra de Soysa of the Norwegian University of Science and Technology has done extensive research on the effects of economic freedom on intrastate conflict. In a 2011 study, De Soysa finds that

economic freedom [as measured by the EFW Index] lowers the risk of an onset of violent conflict. The statistical effect remains robust to a number of specification changes, and the net effect of economic freedom is larger and more significant than is per capita income level and regime type. Economic freedom also reduces political repression, which suggests that the peace effect of economic freedom is not working through a repression effect since rulers can suppress violence by using a heavy hand against the mobilization of dissent. Under conditions of fewer market distortions, thus, and fairer economic governance that reflects liberal values of free-market competition and respect for property, people seem to dissent less and states seem to repress less, lessening the trinity of means, motive, and opportunity for committing socially-costly violent conflict.⁹⁰

After analyzing data spanning from 1970 to 2005, De Soysa and Hanne Fjelde find that higher economic freedom lowers the risk of civil war, more so even than

⁸⁹ E.g., Collier *et al.*, *Breaking the Conflict Trap*; James D. Fearon and David D. Laitin, "Ethnicity, Insurgency, and Civil War," *American Political Science Review* 97:1 (2003): 75-90; Nicholas Sambanis, "Poverty and the Organization of Political Violence," *Brookings Trade Forum: 2004*, ed. Susan M. Collins and Carol Graham (Washington, D.C.: Brookings Institution Press, 2004); Havard Hegre, Nicholas Sambanis, "Sensitivity Analysis of Empirical Results on Civil War Onset," *Journal of Conflict Resolution* 50:4 (2006): 508-535; Krishna Chaitanya Vadlamannati, "Why Indian Men Rebel? Explaining Armed Rebellion in the Northeastern States of India, 1970-2007," *Journal of Peace Research* 48:5 (2011): 605-619; Patricia Justino, "War and Poverty," in *The Oxford Handbook of the Economics of Peace and Conflict*; Tor Georg Jakobsen, Indra de Soysa, Jo Jakobsen, "Why Do Poor Countries Suffer Costly Conflict? Unpacking per Capita Income and the Onset of Civil War," *Conflict Management and Peace Science* 30:2 (2013): 140-160; Alex Braithwaite, Niheer Dasandi, and David Hudson, "Does Poverty Cause Conflict? Isolating the Causal Origins of the Conflict Trap," *Conflict Management and Peace Science* 33:1 (2016): 45-66.

⁹⁰ Indra de Soysa, "The Hidden Hand Wrestles Rebellion: Theory and Evidence on How Economic Freedom Prevents Civil Violence," *Studies in Ethnicity and Nationalism* 11:2 (2011): 293-294.

democracy and good governance.⁹¹ This remains true after variables such as income per capita, growth rates, total population, ethnic fractionalization, and oil exportation are controlled for. Yet, these results likely underestimate the total impact of economic freedom on civil war. “In reality,” they write, “the effect of economic freedom on peace is likely to be larger if we also take into account the indirect effect of economic freedom through its impact on income growth.”⁹² These findings correspond with a later study by De Soysa and Flaten,⁹³ which controls for the same variables and finds that higher levels of economic globalization—as measured by the KOF Globalization Index⁹⁴—reduce the risk of civil war. In a 2016 study,⁹⁵ De Soysa finds that overall annual increases in economic freedom lower the probability of civil war. When the effects of the EFW Index’s individual components are examined, it turns out that property rights and high-quality legal institutions, sound money, and free trade are ultimately what reduce the risk of intrastate conflict. Business and labor regulations as well as government size have no apparent impact. De Soysa along with Vadlamannati and Ostmo find that countries participating in International Monetary Fund (IMF) programs—which consist of more austere public budgets and greater economic liberalization—for over five months

⁹¹ Indra de Soysa and Hanne Fjelde, “Is the Hidden Hand an Iron Fist? Capitalism and Civil Peace, 1970-2005,” *Journal of Peace Research* 47:3 (2010): 287-298.

⁹² *Ibid.*, 293.

⁹³ Indra de Soysa and Ranveig Drolsum Flaten, “Globalization and Political Violence, 1970-2008,” *International Interactions* 38:5 (2012): 622-646.

⁹⁴ “The economic indicators chosen are in line with most previous research on economic globalization, including the extent of trade, FDI, portfolio investment, import barriers, and tariff rates” (*Ibid.*, 630-631).

⁹⁵ Indra de Soysa, “Capitalism and the “New Wars”: Free Markets and Societal Insecurity Before and After the Cold War,” *Civil Wars* 18:1 (2016): 1-18.

experience improved ethnic peace.⁹⁶ The data suggest “IMF involvement could cut the level of ethnic tension in a country by half.”⁹⁷

Other scholars have come to similar conclusions. Covering the period between 1970 and 1999, Katherine Barbieri and Rafael Reuveny find that international trade, foreign direct investment (FDI), and foreign portfolio investment (FPI) reduce the risk of civil war in all states observed.⁹⁸ After controlling for multiple factors, David Steinberg and Stephen Saideman find

that ethnic conflicts become more violent when the state is an active economic actor than when it is not. This relationship is robust to alternative measures of the independent and dependent variables, and holds for both cross-sectional and panel data analyses...Government controls of capital flows and foreign investment, government involvement in banking, wage and price controls, and government regulation all significantly increase ethnic violence...[N]o evidence suggests that any government interventions in the economy contribute to ethnic peace.⁹⁹

In a 2009 study, Joshua Hall and Robert Lawson employ both the EFW Index as well as the Global Peace Index (GPI), with a lower GPI score representing *more* peace. Hall and Lawson find “that a two unit higher EFW index, about the difference between the market-friendly United States and autocratic Pakistan, corresponds to a 0.5 unit lower GPI, about the difference between peaceful Switzerland and war-torn Bosnia.”¹⁰⁰ In a

⁹⁶ Krishna Chaitanya Vadlamannati, Gina Maria G Ostmo, and Indra de Soysa, “Do IMF Programs Disrupt Ethnic Peace? An Empirical Analysis, 1985-2006,” *Journal of Peace Research* 51:6 (2014): 711-725. A different analysis of the literature found that IMF programs have no predictive power regarding civil war. See Trude M. Midtgaard, Krishna Chaitanya Vadlamannati, Indra de Soysa, “Does the IMF Cause Civil War? A Comment,” *The Review of International Organizations* 9:1 (2014): 107-124.

⁹⁷ *Ibid.*, 720.

⁹⁸ Katherine Barbieri and Rafael Reuveny, “Economic Globalization and Civil War,” *Journal of Politics* 67:4 (2005): 1228-1248.

⁹⁹ David A. Steinberg and Stephen M. Saideman, “Laissez Fear: Assessing the Impact of Government Involvement in the Economy on Ethnic Violence,” *International Studies Quarterly* 52 (2008): 250.

¹⁰⁰ Joshua C. Hall and Robert A. Lawson, “Economic Freedom and Peace,” *Atlantic Economic Journal* 37 (2009): 446.

2012 study, Mousseau once again uses life insurance per capita as a proxy for market norms. He reports, “Analyses of armed conflict in most nations from 1961 to 2001 showed that not a single civil war, insurgency, or rebellion occurred in any nation with a market-capitalist economy. This result is highly unlikely to be the result of chance and, after controlling for every known robust variable in civil war studies, market-capitalism emerged as the most powerful explanatory factor in the field, by a large margin.”¹⁰¹

Economist Saumitra Jha’s analysis of medieval South Asian ports finds that trade and low barriers to trade entry made these areas “five times less prone to Hindu-Muslim riots and around 25 percentage points less likely than otherwise similar towns to experience any religious riot between 1850 and 1950, two centuries *after* Europeans disrupted Muslim advantages in overseas trade. Between 1850 and 1950, medieval port towns were around ten times less likely to experience their first outbreak of Hindu-Muslim rioting in any given year.”¹⁰² Low barriers to trade entry prevent what Jha calls *ethnic cronyism*. These “ethnic trading networks” are often “based upon personal and community ties” and therefore “closed to competitors...Indeed, ‘protection’ by dictators has been a common feature of the histories of many market-oriented ethnic minorities in both medieval and contemporary developing country settings.”¹⁰³ This protectionism sows the seeds of violent conflict.

The World Bank’s annual *Doing Business* report measures the ease of doing business in countries through multiple areas of business regulation, ranging from starting

¹⁰¹ Michael Mousseau, “Capitalist Development and Civil War,” *International Studies Quarterly* 56 (2012): 481.

¹⁰² Saumitra Jha, “Trade, Institutions, and Ethnic Tolerance: Evidence from South Asia,” *American Political Science Review* 107:4 (2013): 807.

¹⁰³ Saumitra Jha, “Trading for Peace,” *Economic Policy* 33:95 (2018): 513.

a business and obtaining permits to trading across borders and contract enforcement.

Using data from the *Doing Business* rankings and the EFW Index, Michael Strong finds a close connection between peace, economic liberalization, and business-friendly environments. As a case study, Strong looks to Northern Ireland between 1975 and 2000, concluding that increased economic freedom, the consequential economic boom, and the decrease in violence were interconnected. He summarizes his findings:

[W]hether one looks at the Doing Business rankings, which provide a narrow focus on the obstacles to indigenous entrepreneurship, or Fraser Economic Freedom rankings, which provide a broader measure of business environment that benefits both indigenous entrepreneurs and multinational corporations, there is a close fit between those nations that are regarded as peaceful and those nations that provide a positive environment for business.¹⁰⁴

Various organizations also acknowledge the power commerce has to reduce conflict and establish peace. For example, a 2016 report by the World Economic Forum's (WEF) Global Agenda Council on Fragility, Violence, and Conflict includes 12 case studies across the globe, ranging from Afghanistan and Bangladesh to Nigeria and Uganda. These studies suggest that trade and integrated businesses contribute to prosperity, stabilization, and peacebuilding.¹⁰⁵ The report explains, "International and local businesses have a critical role to play in finding ways to minimize fragility and build resilience. A key reason...is because fragility—including conflict and crime—is bad for business. It generates direct and indirect opportunity costs all along the value chain."¹⁰⁶ The case studies in a 2014 report by the United Nations Global Compact and

¹⁰⁴ Michael Strong, "Peace Through Access to Entrepreneurial Capitalism for All," *Journal of Business Ethics* 89 (2009): 532.

¹⁰⁵ World Economy Forum, *Responsible Investment in Fragile Contexts* (Geneva: World Economic Forum, 2016); http://www3.weforum.org/docs/GAC16_Responsible_Investment_Fragile_Context.pdf

¹⁰⁶ *Ibid.*, 8.

Religious Freedom and Business Foundation (RFBF) come to similar conclusions regarding interfaith peace.¹⁰⁷ “Business is at the crossroads of culture, commerce and creativity,” writes Brian Grim, president of RFBF. “This means businesses have the resources to make the world more peaceful as well as the incentive to do so. Indeed, as these case studies show, business is good for interfaith understanding, religious freedom and peace.”¹⁰⁸

State-on-Citizen Violence

The literature on intrastate violence does not end with two-sided violence such as civil wars, insurgencies, or rebellions. States throughout history—and still today—are known for violating the physical integrity of their citizens. Does economic liberalization temper this one-sided form of violence in any way? In her review of the literature, Emilie M. Hafner-Burton determines that “[o]ne of the key discoveries of the past few decades” is that international trade, FDI, and market economies are “correlated with better protections for human rights.”¹⁰⁹ Similarly, Niklas Potrafke’s review of the literature concludes that “globalisation has improved human rights.”¹¹⁰ Indra de Soysa’s research proves extremely useful in this regard once again. In the 2011 study mentioned in the previous section, De Soysa finds that “economic freedom has a statistically significant dampening effect on political repression – a result that is unaffected by per capita income

¹⁰⁷ UN Global Compact and Religious Freedom and Business Foundation, *Business: A Powerful Force for Supporting Interfaith Understanding and Peace* (Global Compact Network Indonesia and Religious Freedom and Business Foundation, 2014); https://religiousfreedomandbusiness.org/uploads/3/2/9/7/3297448/business_a_powerful_force_for_interfaith_understanding_and_peace.pdf

¹⁰⁸ *Ibid.*, 6.

¹⁰⁹ Emilie M. Hafner-Burton, “A Social Science of Human Rights,” *Journal of Peace Research* 51:2 (2014): 277-278.

¹¹⁰ Niklas Potrafke, “The Evidence on Globalisation,” *The World Economy* 38:3 (2015): 524.

or other relevant controls.”¹¹¹ Utilizing the CIRI Human Rights Data Project,¹¹² De Soysa and Eriksen analyze 104 developing countries between 1981 and 2003 and discover that economic freedom (EFW Index) increases physical integrity rights.¹¹³ In an analysis of 118 countries between 1981 and 2005, De Soysa and Krishna Chaitanya Vadlamannati find economic globalization (KOF Index) to be linked to fewer governmental violations of human rights.¹¹⁴ A later study of 150 countries between 1970 and 2008 supports these findings, demonstrating that increased exposure to global markets reduces state violence toward its people.¹¹⁵ Finally, a 2013 analysis of 117 countries between 1981 and 2006 by De Soysa and Vadlamannati finds “positive effects of market-economic policy reforms on government respect for human rights.”¹¹⁶

Several other studies support those by De Soysa and colleagues. An analysis of 106 countries between 1981 and 2004 finds that increases in both economic globalization (KOF Index) and economic freedom (EFW Index) increase respect for physical integrity rights (CIRI).¹¹⁷ Another study finds trade to be “advantageous to guaranteeing human rights,” while FDI is also “favorable for human rights” through its impact on economic

¹¹¹ De Soysa, “The Hidden Hand Wrestles Rebellion,” 292.

¹¹² This database reports on extrajudicial killings, disappearances, torture, political imprisonment, freedom of speech and government censorship, freedom of religion, freedom of movement and migration, freedom of assembly and association, free and fair elections, workers’ rights, and women’s rights.

¹¹³ Silja Eriksen and Indra de Soysa, “A Fate Worse Than Debt? International Financial Institutions and Human Rights, 1981-2003,” *Journal of Peace Research* 46:4 (2009): 485-503.

¹¹⁴ Indra de Soysa and Krishna Chaitanya Vadlamannati, “Does Being Bound Together Suffocate, or Liberate? The Effects of Economic, Social, and Political Globalization on Human Rights, 1981-2005,” *Kyklos* 64:1 (2011): 20-53.

¹¹⁵ De Soysa and Flaten, “Globalization and Political Violence, 1970-2008.”

¹¹⁶ Indra de Soysa and Krishna Chaitanya Vadlamannati, “Do Pro-Market Reforms Drive Human Rights Violations? An Empirical Assessment, 1981-2006,” *Public Choice* 155:1 (2013): 163-187.

¹¹⁷ Alex Dreher, Martin Gassebner, and Lars-H.R. Siemers, “Globalization, Economic Freedom, and Human Rights,” *Journal of Conflict Resolution* 56:3 (2012): 516-546.

development and its tendency to “reduce the political power of traditional monopoly or oligopoly businesses” and “the potential of corruption.”¹¹⁸ A 2003 study examines incidences of genocide between 1955 and 1997. One of the factors that decreases the risk of political mass murder is economic interdependence: “Countries with low trade openness had two and half times greater odds of having state failures culminate in genocide/politicide... The results support arguments about the importance of a country’s international economic linkages in inhibiting gross human rights violations.”¹¹⁹

Richards and Gelleny’s review of the literature determines that it is “mixed” on the relationship between human rights and economic globalization, “but lean[s] towards implying that in many places and times economic globalization is associated with better respect for human rights.”¹²⁰ Their own analysis of less-developed countries between 1981 and 1999 also finds an association: “A one-standard-deviation increase in respect for physical integrity rights leads to a one-standard-deviation increase in FDI as percentage of GDP.”¹²¹ In short, “countries with greater levels of respect for the rights to freedom from torture, disappearance, extrajudicial killings, and political imprisonment seems better able to attract capital from foreign sources.”¹²² This outcome is similar to those studies that find international conflict reduces trade. Another comparable study establishes a negative relationship between economic liberalization and human rights

¹¹⁸ Clair Apodaca, “Global Economic Patterns and Personal Integrity Rights After the Cold War,” *International Studies Quarterly* 45 (2001): 598-599.

¹¹⁹ Barbara Harff, “No Lessons Learned from the Holocaust? Assessing Risks of Genocide and Political Mass Murder since 1955,” *American Political Science Review* 97:1 (2003): 67.

¹²⁰ David L. Richards and Ronald D. Gelleny, “Economic Globalization and Human Rights,” in *Human Rights: Politics and Practice*, 3rd ed., ed. Michael Goodhart (New York: Oxford University Press, 2016), 220.

¹²¹ *Ibid.*, 230.

¹²² *Ibid.*, 231.

violations. By testing the *latter's* impact on the *former*, the authors conclude that human rights abuses “actually reduce the pace of economic liberalization.”¹²³ These studies indicate that state violence toward citizens and economic liberalization are antithetical to each other.

Citizen-on-Citizen Violence

A final angle worth exploring is commerce's relation to citizen-on-citizen violence (e.g., violent crime, homicide). Admittedly, the literature is scant. However, the few studies available can shed light on the microlevel effects of commerce.

In a 2010 cross-country analysis, Stringham and Levendis test the effects of the IEF and EFW Index on homicide rates. “In both regressions,” they write, “*economic freedom* is significantly correlated with *homicide rates* where increases in economic freedom are associated with decreases in the *homicide rate*.”¹²⁴ De Soysa's 2016 study discussed previously also finds that “economic freedom has negative effects on perception of crime, homicide rates, actual violent crime, access to small arms and political instability.”¹²⁵ Economist Kislaya Prasad analyzes the effects of India's market reforms on violent crime.¹²⁶ Hypothesizing that economic restrictions create violent black markets, Prasad examines the relationship between violent crime, differential gold prices

¹²³ Art Carden and Robert A. Lawson, “Human Rights and Economic Liberalization,” *Business and Politics* 12:2 (2010): 12.

¹²⁴ Edward Peter Stringham and John Levendis, “The Relationship Between Economic Freedom and Homicide,” in *Economic Freedom of the World: 2010 Annual Report*, ed. J.D. Gwartney, Joshua C. Hall, Robert Lawson (Vancouver, BC: Fraser Institute, 2010), 207 (italics original).

¹²⁵ Indra de Soysa, “Capitalism and the “New Wars,”” 17.

¹²⁶ Kislaya Prasad, “Economic Liberalization and Violent Crime,” *The Journal of Law and Economics* 55:4 (2012): 925-948.

(“a measure of the attractiveness of gold smuggling”),¹²⁷ and manufacturing output (a measure of industrial delicensing and reduced import restrictions). The results show that “[i]ncreases in the [gold price] spread are associated with increases in the murder rate, whereas decreases are associated with reductions in the murder rate.”¹²⁸ Furthermore, “[s]tates with high levels of manufacturing activity...witnessed a decline in the level of crime relative to that in less industrialized states. The evidence suggests that it is not the increase in manufacturing output or income (postreform) that is behind the decline. Rather, the effect appears to be a consequence of the removal of controls.” Extending the analysis to other countries, Prasad discovers,

the measures of trade openness have a negative relationship to the murder rate. In particular, as a country’s trade percentage increases (an effect plausibly caused by falling trade barriers), its murder rate decreases. Further, as customs revenues (as a percentage of tax revenues) decrease, so does the murder rate. And finally, the higher the black-market exchange rate premium, the higher the murder rate. These results are consistent with the...findings for India and provide broader support for the existence of an equilibrium relationship between the incidence of violent crime and government control of economic transactions.¹²⁹

Much like the studies showing violence’s negative effects on trade, FDI, and economic liberalization, an analysis of plant-level data in Columbia shows that violent crime “reduces[s] average [firm] production” and causes “some firms [to] exit the market. Overall, when violence increases by 1%, aggregate production...falls by

¹²⁷ Ibid., 927.

¹²⁸ Ibid., 937.

¹²⁹ Ibid., 945.

0.39%.”¹³⁰ In the case of Columbia, violent crime makes it difficult for commerce to flourish.

However, a 2015 study of U.S. data over a 30-year period finds no significant relation between homicide and economic liberalization. Nonetheless, it does state that “violent crime may tend to increase somewhat following liberalizing reforms that reduce government spending but decrease following policy changes that ease labor market regulations; tax reforms appear to have no clear effects... The only result that remains robust throughout all tests is that all three types of economic freedom lead to less non-violent crime.”¹³¹ A 2019 cross-country analysis finds that increases in economic freedom (as measured by both the EFW Index and the IEF) lead to a decrease in homicide rates within countries.¹³² However, added controls result in no relationship between economic freedom and homicide. When the indices are broken down, the researchers find that reductions in taxes and government size can actually *increase* homicide rates. None of the other individual factors are statistically significant.¹³³

¹³⁰ Sandra V. Rozo, “Is Murder Bad for Business? Evidence from Columbia,” *Review of Economics and Statistics* 100:5 (2018): 781.

¹³¹ Christian Bjornskov, “Does Economic Freedom Really Kill? On the Association Between ‘Neoliberal’ Policies and Homicide Rates,” *European Journal of Political Economy* 37 (2015): 218.

¹³² Craig McLean, Michael A. Long, Paul B. Stretesky, Michael J. Lynch, and Steve Hall, “Exploring the Relationship Between Neoliberalism and Homicide: A Cross-National Perspective,” *International Journal of Sociology* 49:1 (2019): 53-76.

¹³³ A post hoc analysis within the study finds that decreased government spending, government size, and tax burdens increase poverty and inequality, which in turn increase homicide. However, other studies find that increased economic freedom is associated with lower poverty. See Colin Doran and Thomas Stratmann, “The Relationship Between Economic Freedom and Poverty Rates: Cross-Country Evidence,” *Journal of Institutional and Theoretical Economics* 176 (2020): 1-22; James D. Gwartney and Joseph S. Connors, “Economic Freedom and Global Poverty,” in *Accepting the Invisible Hand: Market-Based Approaches to Social-Economic Problems*, ed. Mark D. White (New York: Palgrave Macmillan, 2010). The evidence on inequality is more mixed. See Joshua C. Hall and Robert Lawson, “Economic Freedom of the World: An Accounting of the Literature,” *Contemporary Economic Policy* 32:1 (2014): 1-19; Nicholas Apergis, Oguzhan Dincer, James E. Payne, “Economic Freedom and Income Inequality Revisited: Evidence from a Panel Error Correction Model,” *Contemporary Economic Policy* 32:1 (2014): 67-75; Daniel L.

Summary

This overview of the empirical literature demonstrates that economic interdependence and economic freedom are associated with reductions in (1) interstate wars, (2) civil wars and conflicts, and (3) violations of physical human rights. The evidence of their association with reductions in violent crime is considerably weaker, mainly due to the *lack* of available evidence rather than strong evidence *against* the association. However, even in this case, the evidence appears to lean in favor of peaceful markets. The first of the Big Six can therefore be answered in the affirmative: commerce *does* promote and *is* associated with peace.

Bennett and Richard K. Vedder, "A Dynamic Analysis of Economic Freedom and Income Inequality in the 50 U.S. States: Empirical Evidence of a Parabolic Relationship," *The Journal of Regional Analysis and Policy* 43:1 (2013): 42-55; Nicholas Apergis and Arusha Cooray, "Economic Freedom and Income Inequality: Evidence from a Panel of Global Economies--A Linear and a Non-Linear Long-Run Analysis," *The Manchester School* 85:1 (2017): 88-105; Md. Rabiul Islam, "Wealth Inequality, Democracy and Economic Freedom," *Journal of Comparative Economics* 46:4 (2018): 920-935.

CHAPTER 2

“THROUGH COMMERCE, MAN LEARNS...TO BE HONEST”:

CORRUPTION, TRUST, AND COOPERATION

As mentioned in the introduction, Adam Smith associated dishonest behavior (cheating) with a lack of market contact. The term *corruption* captures this deficiency in integrity well. According to the definition proposed by Ray Fisman and Miriam Golden, *corruption* is “the exploitation of public office for private gain. The private benefits of corruption can come in many forms—votes or jobs, for example, in addition to cash.”¹³⁴ While this definition seems to focus solely on *public* sector corruption, Fisman and Golden are quick to note that their definition “extends to private sector interactions with the public sphere, such as when a corporation pays bribe money to public officials to gain an economic advantage.”¹³⁵ In essence, corruption is often collusion between public and private actors in which they rig the political/economic game in their favor: a high-level form of cheating and manipulation. One example of this form of collusion is what economists call *rent-seeking*. Randall Holcombe explains,

Because government can compel citizens to pay their taxes and obey its regulations, people have an incentive to try to use government to provide benefits to them at the expense of others. Businesses might lobby to receive subsidies, tax credits, or regulations that impose costs on their competitors to create advantages for themselves. Interest groups might lobby for transfer payments to their members, or for government financial support for their organizations. These

¹³⁴ Ray Fisman and Miriam A. Golden, *Corruption: What Everyone Needs to Know* (New York: Oxford University Press, 2017), 53.

¹³⁵ *Ibid.*, 25.

transfers or favors benefit the recipients, but add nothing to the total output of the economy.¹³⁶

This often results in *regulatory capture*, in which “regulatory agencies are “captured” by the firms they regulate; that is, they end up acting in the best interest of the firms they regulate, rather than acting in the general public interest.”¹³⁷ Relying on Transparency International’s Corruption Perceptions Index (CPI)—which “measures the perceived levels of public sector corruption in 180 countries and territories”¹³⁸ using multiple surveys of business people and country experts—Fisman and Golden state flatly that “corruption is worse in poor countries.”¹³⁹ This holds true for states and provinces as well. Economic development appears to be a major contributor to the reduction of corruption. Fisman and Golden also list a free press as a buffer against corruption. This opens the door for *indirect* effects of trade and economic liberalization on corruption. For example, empirical work confirms the positive effects of trade and economic liberalization on economic growth.¹⁴⁰ There is even some research that suggests

¹³⁶ Randall G. Holcombe, *Advanced Introduction to Public Choice* (Northampton, MA: Edward Elgar Publishing, 2016), 78.

¹³⁷ *Ibid.*, 81. See also Brink Lindsey and Steven M. Teles, *The Captured Economy: How the Powerful Enrich Themselves, Slow Down Growth, and Increase Inequality* (New York: Oxford University Press, 2017); Holcombe, *Political Capitalism*.

¹³⁸ Transparency International, *Corruption Perceptions Index 2018*, Report, 2018, 1; https://www.transparency.org/whatwedo/publication/corruption_perceptions_index_2018. The legitimacy of this index has found further empirical backing. See Alexander Hamilton and Craig Hammer, “Can We Measure the Power of the Grabbing Hand?: A Comparative Analysis of Different Indicators of Corruption,” World Bank Policy Research Working Paper 8299, Jan. 2018; <https://openknowledge.worldbank.org/handle/10986/29162>.

¹³⁹ Fisman and Golden, *Corruption*, 57.

¹⁴⁰ For the empirical connection between trade and economic growth, see Douglas A. Irwin, *Free Trade Under Fire*, 4th ed. (Princeton, NJ: Princeton University Press, 2015); Kimberly Clausing, *Open: The Progressive Case for Free Trade, Immigration, and Global Capital* (Cambridge, MA: Harvard University Press, 2019); Arvind Panagariya, *Free Trade and Prosperity: How Openness Helps the Developing Countries Grow Richer and Combat Poverty* (New York: Oxford University Press, 2019); Walker Wright, “How Trade Openness Can Help to ‘Deliver the Poor and Needy’,” *Economic Affairs* 40 (2020): 100-107. On economic

economic freedom promotes (or at least goes hand-in-hand with) freedom of the press.¹⁴¹

However, this study will examine more direct connections between market systems and corruption.

Economic Freedom and Corruption

One way of exploring this link is to employ the Fraser Institute's annual *Economic Freedom of the World* report. The 2010 report compares the level of economic freedom within countries to their level of corruption (based on the CPI). On a scale of 0 to 10—with 0 being “highly corrupt” and 10 being “highly clean”—the freest countries end up with an average score of 7.4, while the least free countries come to an average score of 2.6.¹⁴² Jason Brennan and Peter Jaworski corroborate this finding. Sticking to the CPI's usual 0-100 scale (with lower scores once again representing more corruption), Brennan and Jaworski discover “a positive correlation between countries' degree of economic freedom...and countries' lack of corruption[.]”¹⁴³

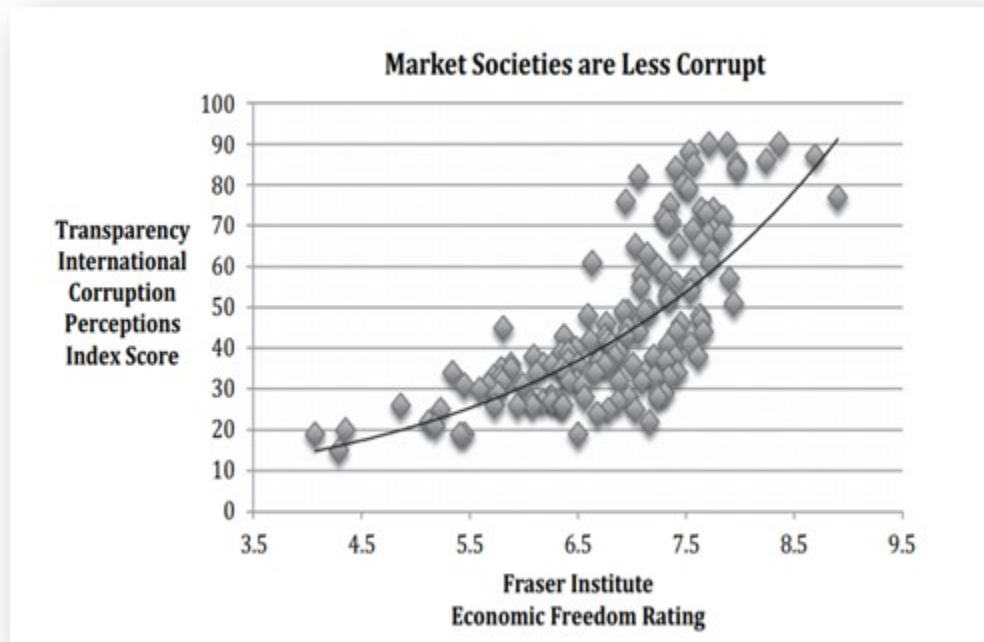
freedom and growth, see Jakob De Haan, Susanna Lundstrom, Jan-Egbert Sturm, “Market-Oriented Institutions and Policies and Economic Growth: A Critical Survey,” *Journal of Economic Surveys* 20:2 (2006): 157-191; Chris Doucouliagos and Mehmet Ali Ulubasoglu, “Economic Freedom and Economic Growth: Does Specification Make a Difference?” *European Journal of Political Economy* 22:1 (2006): 60-81; Joshua C. Hall and Robert Lawson, “Economic Freedom of the World.” Data manipulation by various dictatorships indicates that economic freedom may have an even stronger impact on growth than the literature suggests. See Luis R. Martinez, “How Much Should We Trust the Dictator's GDP Growth Estimates?” (Aug. 9, 2019); https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3093296

¹⁴¹ Simeon Djankov, Caralee McLiesh, Tatiana Nenova, Andrei Shleifer, “Who Owns the Media?” *Journal of Law and Economics* 46:2 (2003): 341-382; Christian Bjornskov, “The Hayek-Friedman Hypothesis on the Press: Is There an Association Between Economic Freedom and Press Freedom?” *Journal of Institutional Economics* 14:4 (2018): 617-638.

¹⁴² “Economic Freedom of the World, 2008,” in *Economic Freedom of the World: 2010 Annual Report*, ed. James Gwartney, Joshua Hall, Robert Lawson (Vancouver, BC: Fraser Institute, 2010), 19.

¹⁴³ Brennan and Jaworski, *Markets Without Limits*, 99. See also Jason Brennan, “Do Markets Corrupt?” in *Economics and the Virtues*.

Figure 1. Economic Freedom's Relation to Corruption



Source: Brennan and Jaworski, *Markets Without Limits*, pg. 99.

The most recent *Doing Business* report from the World Bank notes that “inefficient regulation tends to go hand in hand with rent-seeking...The 20 worst-scoring economies on Transparency International’s Corruption Perceptions Index average 8 procedures to start a business and 15 to obtain a building permit. Conversely, the 20 best-performing economies complete the same formalities with 4 and 11 steps.”¹⁴⁴ More

¹⁴⁴ World Bank Group, *Doing Business 2020: Comparing Business Regulation in 190 Economies* (Washington, D.C.: World Bank, 2020), 8.

specifically, the report finds that “economies with fewer tax payments have a lower perceived level of public sector corruption.”¹⁴⁵

An analysis by Virgil Storr and Ginny Choi supports the findings above. In defining a market-oriented economy, Storr and Choi not only employ the EFW, IEF, and *Doing Business* indices, but also the Global Competitive Index (GCI) and World Justice Project’s Rule of Law Index. “Empirically speaking,” they write, “we defined a country as a market society if its scores were in the top two-fifths of the range of possible scores in each of the indices for which a score was available for that particular country.”¹⁴⁶ Their results show market societies average a CPI score of 7.27 and non-market societies an average of 3.24.¹⁴⁷

Multiple studies confirm that trade,¹⁴⁸ economic globalization,¹⁴⁹ and economic freedom reduce corruption. For example, a cross-country study by Daniel Treisman determines that “[o]penness to foreign trade...reduces corruption,” but “would require a radical opening rather than a marginal shift.”¹⁵⁰ In several studies,¹⁵¹ Wayne Sandholtz

¹⁴⁵ Ibid., 51.

¹⁴⁶ Storr and Choi, *Do Markets Corrupt Our Morals?*, 252.

¹⁴⁷ Ibid., 171.

¹⁴⁸ Corruption also hinders trade. See Eelke de Jong and Christian Bogmans, “Does Corruption Discourage International Trade?” *European Journal of Political Economy* 27:2 (2011): 385-398.

¹⁴⁹ E.g., Federico Bonaglia, Jorge Braga de Macedo, and Maurizio Bussolo, “How Globalisation Improves Governance,” OECD Working Paper No. 181 (Nov. 2001): https://www.oecd-ilibrary.org/development/how-globalisation-improves-governance_774554632487?fmt=ris; Syed H. Akhter, “Is Globalization What It’s Cracked Up to Be? Economic Freedom, Corruption, and Human Development,” *Journal of World Business* 39 (2004): 283-295; Dionisios A. Lalountas, George A. Manolas, Ioannis S. Vavouras, “Corruption, Globalization and Development: How Are These Three Phenomena Related?” *Journal of Policy Modeling* 33 (2011): 636-648.

¹⁵⁰ Daniel Treisman, “The Causes of Corruption: A Cross-National Study,” *Journal of Public Economics* 76 (2000): 439.

¹⁵¹ Wayne Sandholtz and William Koetzle, “Accounting for Corruption: Economic Structure, Democracy, and Trade,” *International Studies Quarterly* 44 (2000): 31-50; Wayne Sandholtz and Mark M. Gray, “International Integration and National Corruption,” *International Organization* 57 (2003): 761-800;

and his co-researchers find that low levels of state control of the economy along with international trade and investment curtail corruption: “Greater opportunity for economic gain through the market reduces the incentive to resort to corrupt activities. Increased involvement in international trade can dampen corruption by intensifying economic competition, reducing the opportunities for corruption...and socializing actors into the predominantly Western norms of the international economy.”¹⁵²

In a 2007 review of the literature, Treisman finds “that states are perceived by business people and their citizens to be less corrupt if they are highly developed, long-established liberal democracies, with a free and widely read press, a high share of women in government, and a long record of *openness to international trade*.” Treisman also finds that “intrusive business regulations” contribute to perceptions of greater corruption.¹⁵³ However, in a later survey of the evidence, Treisman finds no robust influence of trade openness on corruption. Nonetheless, he does report that higher levels of red tape on businesses are associated with more reports of bribery.¹⁵⁴ A 2018 survey of the literature finds a number of market-oriented factors that reduce corruption, including economic

Wayne Sandholtz and Mark M. Gray, “International Determinants of National Corruption Levels,” in *Global Corruption Report 2005: Corruption in Construction and Post-Conflict Reconstruction* (Ann Arbor, MI: Pluto Press, 2005). See also John James Quinn, “The Effects of Majority State Ownership of Significant Economic Sectors on Corruption: A Cross-Regional Comparison,” *International Interactions* 34:1 (2008): 84-128.

¹⁵² Sandholtz and Koetzle, “Accounting for Corruption,” 44, 46.

¹⁵³ Daniel Treisman, “What Have We Learned About the Causes of Corruption from Ten Years of Cross-National Empirical Research?” *Annual Review of Political Science* 10 (2007): 241; italics mine.

¹⁵⁴ Daniel Treisman, “What Does Cross-National Empirical Research Reveal About the Causes of Corruption?” in *Routledge Handbook of Political Corruption*, ed. Paul M. Heywood (New York: Routledge, 2014). See also Jonathan Hopkin and Andres Rodriguez-Pose, ““Grabbing Hand” or “Helping Hand”? Corruption and the Economic Role of the State,” *Governance* 20:2 (2007): 187-208; Randall G. Holcombe and Christopher J. Boudreaux, “Regulation and Corruption,” *Public Choice* 164 (2015): 75-85; Mohammad Amin and Yew Chong Soh, “Does Greater Regulatory Burden Lead to More Corruption? Evidence Using Firm-Level Survey Data for Developing Countries,” *The World Bank Economic Review* (2020): <https://doi.org/10.1093/wber/lhaa007>

freedom, trade openness, globalization, and property rights.¹⁵⁵ Overall, the evidence suggests that greater economic liberalization stifles the spread of corruption. “The most basic reforms,” writes economist Susan Rose-Ackerman, “are those that reduce the level of benefits under the control of public officials...If the state has no authority to restrict exports or license businesses, no one will pay bribes in those areas...In general, any reform that increases the competitiveness of the economy will help reduce corrupt incentives.”¹⁵⁶

Communism and Corruption

In his analysis of communism’s psychological elements, Simon Kemp determines, “There is little evidence that having a central, command economy or state ownership of the means of production, distribution, and exchange were either directly or indirectly responsible for either such major evils as genocide, the *gulags*, and state-created terror or even the comparatively minor evil of widespread corruption.”¹⁵⁷ Kemp’s conclusion is a bit shocking given both the scholarship on communism’s death toll¹⁵⁸ (some of which he references) and the empirical studies on state violence provided in the

¹⁵⁵ Eugen Dimant and Guglielmo Tosato, “Causes and Effects of Corruption: What Has Past Decade’s Empirical Research Taught Us? A Survey,” *Journal of Economic Surveys* 32:2 (2018): 335-356.

¹⁵⁶ Susan Rose-Ackerman, “Corruption,” in *Readings in Public Choice and Constitutional Political Economy*, ed. Charles K. Rowley and Friedrich G. Schneider (Boston, MA: Springer US, 2008), 558.

¹⁵⁷ Simon Kemp, *Was Communism Doomed?: Human Nature, Psychology and the Communist Economy* (London: Palgrave Macmillan, 2016), 239.

¹⁵⁸ E.g., Robert Conquest, *The Harvest of Sorrow: Soviet Collectivization and the Terror-Famine* (New York: Oxford University Press, 1986); *The Great Terror: A Reassessment* (New York: Oxford University Press, 2008 [1990]); Stephane Courtois, Nicolas Werth, Jean-Louis Panne, Andrzej Paczkowski, Karel Bartosek, Jean-Louis Margolin, *The Black Book of Communism: Crimes, Terror, Repression*, trans. Jonathan Murphy and Mark Kramer (Cambridge, MA: Harvard University Press, 1999); Frank Dikotter, *Mao’s Great Famine: The History of China’s Most Devastating Catastrophe, 1958-62* (London: Bloomsbury Publishing, 2010); Yang Jisheng, *Tombstone: The Great Chinese Famine, 1958-1962* (New York: Farrar, Straus and Giroux, 2012); Anne Applebaum, *Gulag: A History* (New York: Doubleday, 2003); *Red Famine: Stalin’s War on Ukraine* (New York: Doubleday, 2017).

previous chapter. However, what of the evidence of communism's--an extreme form of a centrally-planned economy--impact on corruption?

Wayne Sandholtz and Rein Taagepera explore both the *direct* and *indirect* effects of communism on corruption.¹⁵⁹ In their study, communism is shown to have a direct negative impact on the country's CPI score (what the authors label as "elite integrity"). However, communism is also shown to increase both secular and survivalist values as measured by the World Values Survey (WVS). Secular values tend to increase elite integrity, while survivalist values reduce it. The negative impact of the boost in survivalist values ends up countering the positive effects of increased secular values. As Sandholtz and Taagepera conclude, "Communism...produced a culture of corruption; entire populations had been socialized into norms and expectations that made corruption part of their way of life."¹⁶⁰

Recent work by Dan Ariely and colleagues offers further support for Sandholtz and Taagepera's analysis.¹⁶¹ After testing randomly selected German citizens on their willingness to cheat at a die-rolling game, the authors find that those who had East German (socialist) roots were significantly more likely to cheat compared to those with West German (capitalist) roots. What's more, the longer the exposure to socialism (i.e., those at least 20 years old when the Berlin Wall fell in 1989 compared to those only ten years old), the greater likelihood to cheat. The authors note that this behavior likely

¹⁵⁹ Wayne Sandholtz and Rein Taagepera, "Corruption, Culture, and Communism," *International Review of Sociology* 15:1 (2005): 109-131.

¹⁶⁰ Ibid., 127. On the interaction between institutions and rent-seeking culture, see Seung Ginny Choi and Virgil Henry Storr, "A Culture of Rent Seeking," *Public Choice* 181 (2019): 101-126.

¹⁶¹ Dan Ariely, Ximena Garcia-Rada, Katrin Godker, Lars Hornuf, Heather Mann, "The Impact of Two Economic Systems on Dishonesty," *European Journal of Political Economy* 59 (2019): 179-195.

developed because “socialism pressured or forced people to work around official laws. For example, in East Germany stealing a load of building materials in order to trade it for a television set might have been the only way for a person to acquire a valuable good and connect to the outside world.”¹⁶²

This contention is supported by evidence that shows “economies with large black markets tend to have higher levels of corruption.”¹⁶³ (It should be noted that economic freedom has also been found to reduce informal market activity.)¹⁶⁴ It also provides an explanation for why Storr and Choi find a significant difference in attitudes between members of market and non-market societies. As the graph below demonstrates, nonmarket residents more than double the amount of market residents who believe avoiding fare on public transport, cheating on taxes, and bribery are justifiable. Those from nonmarket societies are also more accepting of theft compared to those from market societies.¹⁶⁵

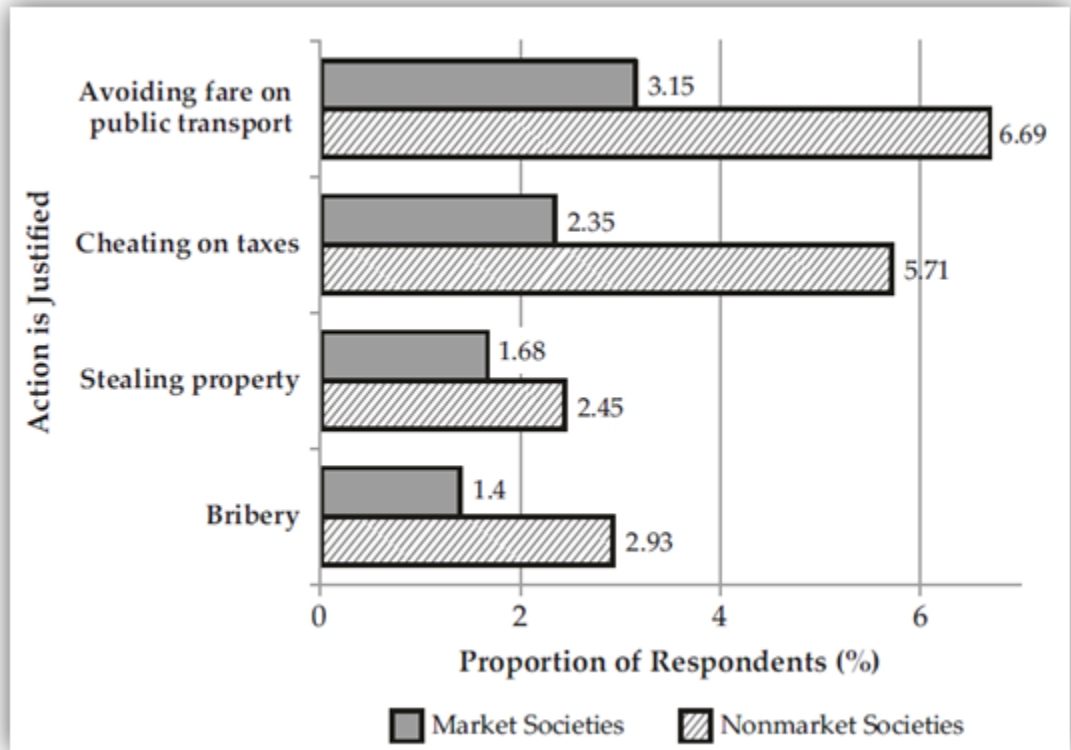
¹⁶² Ibid., 180.

¹⁶³ Rajeev K. Goel and Michael A. Nelson, “Economic Freedom Versus Political Freedom: Cross-Country Influences on Corruption,” *Australian Economic Papers* 44:2 (2005): 129.

¹⁶⁴ See Aziz N. Berdiev, James W. Saunoris, and Friederich Schneider, “Give Me Liberty, or I Will Produce Underground: Effects of Economic Freedom on the Shadow Economy,” *Southern Economic Journal* 85:2 (2018): 537-562; Indra de Soysa, “Predatory Government and the Feasibility of Rebellion.” For causes of shadow economies, see Friedrich Schneider, “Shadow Economy,” in *Readings in Public Choice and Constitutional Political Economy*.

¹⁶⁵ Storr and Choi, *Do Markets Corrupt Our Morals?*, 171-172.

Figure 2. Markets vs. Nonmarket Societies on Dishonest Actions



Source: Storr and Choi, *Do Markets Corrupt Our Morals?*, pg. 172.

The Chinese Experience

Communist economies like the former Soviet Union are ultimately hotbeds of rent-seeking. Rather than a unique economic endeavor, Gary Anderson and Peter Boettke argue that the Soviet economy in practice was closer to the mercantilism found in 16-17th century Europe. This “neo-mercantilist” economy included a “government...headed by an autocrat,” extensive government intervention in the economy along with the sponsorship of “a large variety of monopolies and cartel arrangements,” the autocratic

selling of “monopoly status as well as various other restrictions on competitive entry,” and the monitoring and enforcement of these monopolies.¹⁶⁶ In fact, “in the Soviet-style system one of the main functions of the police was to protect monopolists against competition.”¹⁶⁷ Today’s communist China possesses similar features.

Despite the Chinese government’s adoption of pro-market reforms since the late 1970s,¹⁶⁸ the Communist Party of China remains heavy-handed in its state control and cronyism. “Even if Chinese economic institutions are incomparably more inclusive today than three decades ago,” write Acemoglu and Robinson, “the Chinese experience is an example of growth under extractive political institutions.”¹⁶⁹ Entrepreneurs are held in suspicion, while state-favored businesses “receive contracts on favorable terms, can evict ordinary people to expropriate their land, and violate laws and regulations with impunity. Those who stand in the path of this business plan will be trampled and can even be jailed or murdered.”¹⁷⁰ Minxin Pei argues that Chinese property reforms in the 1990s merely “separated control (use) rights from ownership rights but failed to clarify ownership

¹⁶⁶ Gary M. Anderson and Peter J. Boettke, “Soviet Venality: A Rent-Seeking Model of the Communist State,” *Public Choice* 93 (1997): 41-42.

¹⁶⁷ *Ibid.*, 44.

¹⁶⁸ E.g., James A. Dorn, “China’s March Toward the Market,” in *Making Poor Nations Rich: Entrepreneurship and the Process of Economic Development*, ed. Benjamin Powell (Stanford, CA: Stanford University Press, 2008); “The Genesis and Evolution of China’s Economic Liberalization,” in *Economic Freedom and Prosperity: The Origins and Maintenance of Liberalization*, ed. Benjamin Powell (New York: Routledge, 2019); Ronald Coase and Ning Wang, *How China Became Capitalist* (New York: Palgrave Macmillan, 2012); Nicholas R. Lardy, *Markets Over Mao: The Rise of Private Business in China* (Washington, D.C.: Peterson Institute for International Economics, 2014); Yuen Yuen Ang, *How China Escaped the Poverty Trap* (New York: Cornell University Press, 2016). China currently ranks 124 of 162 in the EFW Index, landing at the very top of the fourth freedom quartile. See *Economic Freedom of the World: 2020 Annual Report*, 10. Prior to Mao, China had a far more open economy. See Frank Dikotter, *The Age of Openness: China Before Mao* (Berkeley, CA: University of California Press, 2008).

¹⁶⁹ Acemoglu and Robinson, *Why Nations Fail*, 439.

¹⁷⁰ *Ibid.*, 437.

rights, the most important component of property rights.”¹⁷¹ Entrepreneurs “lack political power” and will therefore “resort to the most effective means available—bribery—to help them gain an advantage to seize...assets.”¹⁷² Acemoglu and Robinson describe China’s economy (crediting Chen Yu) as a “bird in a cage”: “China’s economy was the bird; the party’s control, the cage, had to be enlarged to make the bird healthier and more dynamic, but it could not be unlocked or removed, lest the bird fly away.”¹⁷³

Even within this cronyistic context, research shows that the more market-oriented areas of China tend to be the least corrupt. Case in point, Chinese provinces with greater trade openness experience much less corruption. In fact, “a 1% increase in trade openness reduces regional corruption by nearly 0.35%.” Researchers also employ the NERI index of marketization, which “covers five main aspects of Chinese marketization: the relationship between the market and the government; the growth of the non-state economy; the development of the product market; the development of the factor market; and the market environment, including intermediaries and institutional and jurisdictional arrangements.” These measures of marketization and government regulation “provide strong evidence that deregulation reduces provincial corruption. Specifically...a 1% rise in the marketization index decreases corruption by 2.72%.”¹⁷⁴ A recent study on China’s anti-corruption reforms also suggests that markets actually pave the way for anti-

¹⁷¹ Minxin Pei, *China’s Crony Capitalism: The Dynamics of Regime Decay* (Cambridge, MA: Harvard University Press, 2016), 31.

¹⁷² *Ibid.*, 33.

¹⁷³ Acemoglu and Robinson, *Why Nations Fail*, 437.

¹⁷⁴ Bin Dong and Benno Torgler, “Causes of Corruption: Evidence from China,” *China Economic Review* 26 (2013): 164.

corruption reforms.¹⁷⁵ The authors' summary of their findings encapsulates the general process of how markets undermine corruption:

Reducing corruption creates more value where market reforms are already more fully implemented. If officials, rather than markets, allocate resources, bribes can be essential to grease bureaucratic gears to get anything done. Thus, non-[state owned enterprises'] stocks actually decline in China's least liberalised provinces – e.g. Tibet and Tsinghai – on news of reduced expected corruption. These very real costs of reducing corruption can stymie reforms, and may explain why anticorruption reforms often have little traction in low-income countries where markets also work poorly. China has shown the world something interesting: prior market reforms clear away the defensible part of opposition to anticorruption reforms. Once market forces are functioning, bribe-soliciting officials become a nuisance rather than tools for getting things done. Eliminating pests is more popular than taking tools away...A virtuous cycle ensues – persistent anticorruption efforts encourage market-oriented behaviour, which makes anticorruption reforms more effective, which further encourages market oriented behaviour.¹⁷⁶

Capitalism, Democracy, and Corruption

Proponents of democracy often trumpet democratic institutions and political rights as the major means of combating corruption.¹⁷⁷ However, as Francis Fukuyama recognizes,

a successful capitalist economy is clearly very important as a support for stable liberal democracy. It is, of course, possible for a capitalist economy to coexist with an authoritarian political system...But in the long run, the industrialization process itself necessitates a more highly educated population and more complex

¹⁷⁵ Chen Lin, Randall Morck, Bernard Yeung, Xiaofeng Zhao, "Anti-Corruption Reforms and Shareholder Valuations: Event Study Evidence from China," NBER Working Paper No. 22001 (May 2018): <https://www.nber.org/papers/w22001>

¹⁷⁶ Chen Lin, Randall Morck, Bernard Yeung, Xiaofeng Zhao, "Market Reforms Give Anticorruption Reforms More Traction: Evidence from China," VoxEU.org, 22 Dec. 2017; <https://voxeu.org/article/market-reforms-give-anticorruption-reforms-more-traction>

¹⁷⁷ Some evidence suggests that economic integration increases the demand for democracy. See Giacomo Magistretti and Marco Tabellini, "Economic Integration and Democracy: An Empirical Investigation," Harvard Business School Working Paper #19-003 (Jan. 15, 2019): <https://hbswk.hbs.edu/item/economic-integration-and-democracy-an-empirical-investigation>

division of labor, both of which tend to be supportive of democratic political institutions. As a consequence, there are today virtually no wealthy capitalist countries that are not also stable liberal democracies.¹⁷⁸

Graeff and Mehlkop find that these wealthy, democratic, less-corrupt states also tend to have larger governments.¹⁷⁹ Yet, their analysis also finds that when “market forces are used to allocate capital instead of political or governmental considerations...corruption decreases.”¹⁸⁰ Another pair of studies¹⁸¹ finds that while democracy can alleviate corruption, it can only do so once the economic groundwork has been laid. In countries with virtually no economic freedom, democracy might actually *increase* corruption. In contrast, “economic freedom alleviates corruption in any political environment yet it becomes more effective when the level of democracy increases.”¹⁸² What’s more, when freedoms are empirically compared, “greater economic freedom, rather than greater political freedom [democracy], seems to be a more effective deterrent to corrupt activities.”¹⁸³ Evidence from U.S. states indicates “bidirectional causality

¹⁷⁸ Francis Fukuyama, *Trust: The Social Virtues and the Creation of Prosperity* (New York: Free Press, 1995), 356.

¹⁷⁹ P. Graeff and G. Mehlkop, “The Impact of Economic Freedom on Corruption: Different Patterns for Rich and Poor Countries,” *European Journal of Political Economy* 19 (2003): 605-620. However, a 2009 study finds that more government tiers and public employees lead to more bribery. See C. Simon Fan, Chen Lin, Daniel Treisman, “Political Decentralization and Corruption: Evidence from Around the World,” *Journal of Public Economics* 93:1-2 (2009): 14-34. Another study finds that larger municipality councils in Sweden result in more corruption. See Andreas Bergh, Gunther Fink and Richard Ohrvall, “More Politicians, More Corruption: Evidence from Swedish Municipalities,” *Public Choice* 172 (2017): 483-500.

¹⁸⁰ Graeff and Mehlkop, “The Impact of Economic Freedom on Corruption,” 611.

¹⁸¹ Shrabani Saha, Rukmani Gounder, Jen-Je Su, “The Interaction Effect of Economic Freedom and Democracy on Corruption: A Panel Cross-Country Analysis,” *Economics Letters* 105 (2009): 173-176; Shrabani Saha and Jen-Je Su, “Investigating the Interaction Effect of Democracy and Economic Freedom on Corruption: A Cross-Country Quantile Regression Analysis,” *Economic Analysis and Policy* 42:3 (2012): 389-396.

¹⁸² Saha *et al.*, “The Interaction Effect of Economic Freedom and Democracy on Corruption,” 175.

¹⁸³ Goel and Nelson, “Economic Freedom Versus Political Freedom,” 131. This refers especially to monetary policy and financial sector regulations.

between economic freedom and corruption in both the short-run and long-run. The bidirectional causality results suggest that although implementing policies which enhance economic freedom reduce corruption, corrupt governments are not likely to implement policies that promote economic freedom.”¹⁸⁴ These findings suggest (1) that democratic institutions and political rights are bolstered by economic freedom and (2) corrupt governments and economic freedom are antithetical to each other.

Joseph Connors argues, “Market competition diffuses power, and corruption thrives on centralized power. Thus, capitalism provides the environment that allows markets to keep corruption at bay.”¹⁸⁵ The evidence above supports Connors’ observation. Greater trade openness and economic liberalization not only stifle corruption in *government*, but also appear to undermine the development of dishonest cultures. Finally, economic freedom lays the groundwork for further anti-corruption reforms and institutions (e.g., democracy).

Trust and Cooperation

“It has been argued,” writes Fukuyama, “that the market itself constitutes a school for sociability, by providing the opportunity and incentive for people to cooperate with one another for the sake of mutual enrichment. But while the market does impose its own socializing discipline to some degree...sociability does not simply emerge spontaneously

¹⁸⁴ Nicholas Apergis, Oguzhan C. Dincer, James E. Payne, “Live Free or Bribe: On the Causal Dynamics Between Economic Freedom and Corruption in U.S. States,” *European Journal of Political Economy* 28 (2012): 224. Corruption in this particular study is measured by “the number of government officials convicted in a state for crimes related to corruption” (Ibid., 216).

¹⁸⁵ Joseph Connors, “Is Capitalism Exploitative?” in *Counting the Cost: Christian Perspectives on Capitalism*, ed. Art Lindsley, Anne R. Bradley (Abilene, TX: Abilene Christian University Press, 2017), 130-131.

once the state retreats. The ability to cooperate socially is dependent on prior habits, traditions, and norms, which themselves serve to structure the market.”¹⁸⁶ Fukuyama is not alone in his assessment. David Rose argues that “successful societies” (which he describes as “free market democracies”)¹⁸⁷ achieve “general prosperity and freedom” through “trust dependent” institutions.¹⁸⁸ These institutions require a “trust-producing culture” that transmit “trust-producing moral beliefs” to subsequent generations.¹⁸⁹ “High-trust societies are the key to unlocking the unfathomable power of cooperation.”¹⁹⁰

Rose certainly has support for his position. A vast literature finds that trust plays a significant role in economic growth.¹⁹¹ Similarly, a large empirical literature finds that trust and corruption share a reciprocal relationship, creating “vicious circles of low trust and high corruption as well as virtuous circles of high trust and low corruption.”¹⁹² From this perspective, trust is foundational to market societies. For example, a 2010 study finds that low trust predicts support for more government regulation. However, regulation *in turn* generates distrust, consequently lowering parental values of tolerance and respect.¹⁹³ Berggren and Bjornskov find that high-quality legal systems that protect private property

¹⁸⁶ Fukuyama, *Trust*, 356.

¹⁸⁷ Fukuyama calls it “democratic capitalism” (*Ibid.*, 4).

¹⁸⁸ David C. Rose, *Why Culture Matters Most* (New York: Oxford University Press, 2019), 2.

¹⁸⁹ *Ibid.*, 3.

¹⁹⁰ *Ibid.*, xiii.

¹⁹¹ For an overview, see Christian Bjornskov, “Social Trust and Economic Growth,” in *The Oxford Handbook of Social and Political Trust*, ed. Eric M. Uslaner (New York: Oxford University Press, 2018). The connection between trust and economic growth has come under fire more recently. See Alex Nowrasteh and Andrew C. Forrester, “Trust Doesn’t Explain Regional U.S. Economic Development and Five Other Theoretical and Empirical Problems with the Trust Literature,” Cato Working Paper No. 57 (Oct. 8, 2019): <https://www.cato.org/sites/cato.org/files/2019-10/working-paper-57.pdf>; Alex Nowrasteh and Benjamin Powell, *Wretched Refuse?: The Political Economy of Immigration and Institutions* (Cambridge, UK: Cambridge University Press, forthcoming).

¹⁹² Jong-Sung You, “Trust and Corruption,” in *The Oxford Handbook of Social and Political Trust*, 486.

¹⁹³ Philippe Aghion, Yann Algan, Pierre Cahuc, Andrei Shleifer, “Regulation and Distrust,” *The Quarterly Journal of Economics* 125:3 (2010): 1015-1049.

rights “are more probable the more people trust each other.” Also, “social trust makes it more likely that policy reforms that *decrease* the scope of regulation take place.”¹⁹⁴ On the flip side, social trust *decreases* the probability of policy reforms that *retreat* from property-protecting legal systems or *increase* regulation. In short, as Fukuyama and Rose argue, trust influences the types of institutions societies create. This alone bodes well for the prosocial outlook of commerce: market economies are trust-based economies. Markets require trusting attitudes and trustworthy behaviors in order to function efficiently. Even if trust is foundational and gives rise to market systems (instead of vice versa), it seems plausible that markets reinforce these virtues by imbuing them with value. As Paul Zak argues, “Moral behavior is necessary for exchange in moderately regulated markets...to reduce cheating without exorbitant transaction costs. Market exchange itself can also lead to an understanding of fair exchange and in this way build social capital in non-market settings.”¹⁹⁵ Is there any evidence for this latter claim?

Trust: Survey Data

Various survey-based studies offer support for the market systems’ positive effects on trust. Using cross-country data, Christian Bjornskov attempts to lay out some determinants of generalized trust. He finds that factors such as income inequality, the population share of Catholics and Muslims, and monarchies have a significant impact on generalized trust. For this paper’s purpose, Bjornskov’s most significant find is post-communism’s relationship to trust: “Post-communist countries are less trusting than

¹⁹⁴ Niclas Berggren and Christian Bjornskov, “The Market-Promoting and Market-Preserving Role of Social Trust in Reforms of Policies and Institutions,” *Southern Economic Journal* 84:1 (2017): 18-19 (italics mine).

¹⁹⁵ Zak, “Introduction,” in *Moral Markets*, xvii.

others, partly due to the detrimental effects of having had a communist regime, partly due to the disruptive effects of dismantling the fundamental organization of society when communism collapsed.”¹⁹⁶ This complements Zak and Knack’s analysis, which shows that institutions that protect private property rights have a positive and significant impact on trust.¹⁹⁷

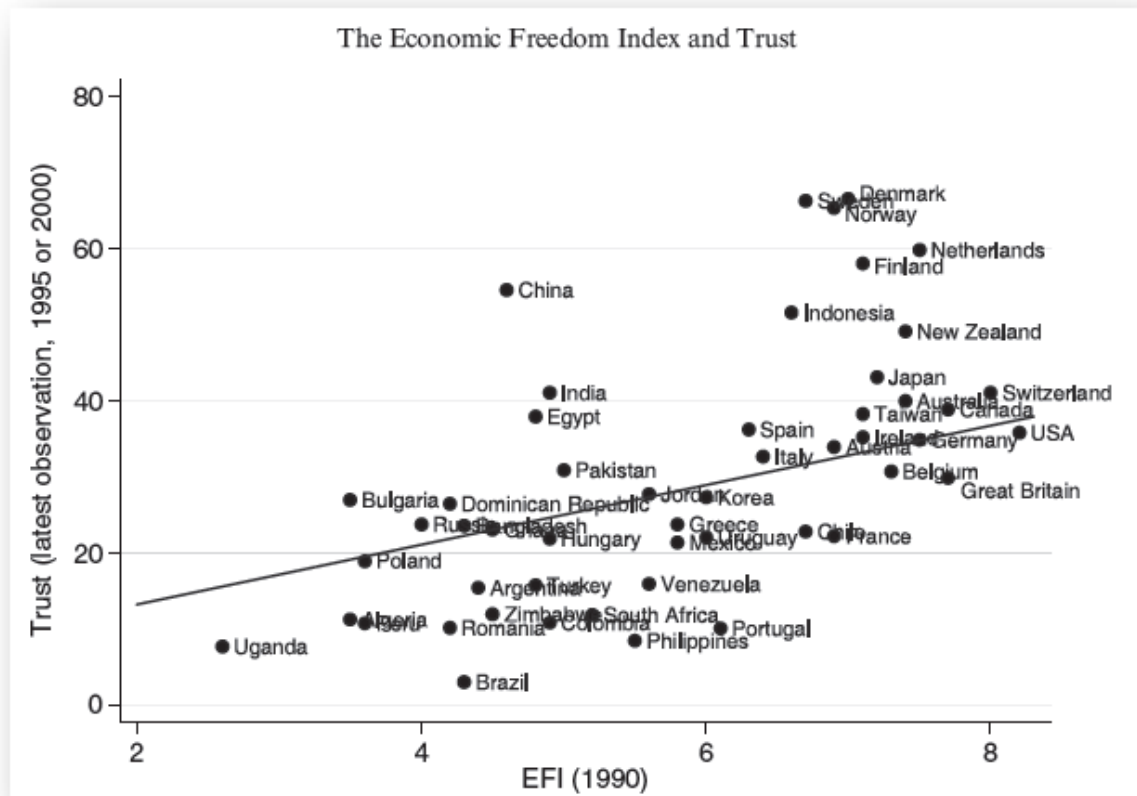
Utilizing data from the EFW Index and the WVS, a 2006 study runs cross-country regressions with over 50 countries for the years 1995 and 2000.¹⁹⁸ The authors find that economic freedom—especially a market-friendly legal system with secure property rights—plays a significant and possibly causal role in the development of trust within countries.

¹⁹⁶ Christian Bjornskov, “Determinants of Generalized Trust: A Cross-Country Comparison,” *Public Choice* 130 (2007): 15.

¹⁹⁷ Paul J. Zak and Stephen Knack, “Trust and Growth,” *The Economic Journal* 111 (2001): 295-321.

¹⁹⁸ Niclas Berggren and Henrik Jordahl, “Free to Trust: Economic Freedom and Social Capital,” *Kyklos* 59:2 (2006): 141-169.

Figure 3. Economic Freedom's Relation to Trust



Source: Berggren and Jordahl, "Free to Trust," pg. 154.

Drawing on the Eurobarometer surveys (instead of the usual WVS) and the EFW Index, Antonio Saravia looks at the effects of economic freedom on generalized trust for the years 1980, 1985, 1990, and 1995. After controlling for GDP per capita, income inequality, religious fractionalization, age, education, Roman Catholicism and

Protestantism, Saravia finds that a 10% increase in the EFW Index leads to a 2.5% increase in generalized trust.¹⁹⁹

A 2017 study explores data from 98 countries between the years 1994 to 2004. Drawing on the WVS, IEF, and European Values Study (EVS), the authors conclude, “There seems to be little direct effect of economic freedom on trust in general, yet, we do find that in Western countries, where capitalism seems most advanced, there is a positive effect of capitalism on trust.”²⁰⁰ According to the results, Western countries boost trust. This would seem to confirm the view of one *doux commerce* skeptic: “the *doux commerce* thesis is itself a ‘cultural artefac[t]’ that cannot be divorced from the Western traditions that gave rise to it.”²⁰¹ However, Western countries have a significant *negative* effect on both personal and institutional trust when economic freedom is *zero*, indicating that “economic freedom does indeed play a role in producing greater trust among the Western societies[.]”²⁰²

Storr and Choi find that “everyone appears to equally trust those at a short social distance (i.e., trust in family and neighbors) both in market and nonmarket societies,” yet “trust appears to deteriorate as social distance increases and appears to deteriorate quicker in nonmarket societies. Compared to those living in nonmarket societies, on average, more people in market societies express that they at least somewhat trust their known

¹⁹⁹ Antonio Saravia, “Institutions of Economic Freedom and Generalized Trust: Evidence from the Eurobarometer Surveys,” *European Societies* 18:1 (2016): 5-24.

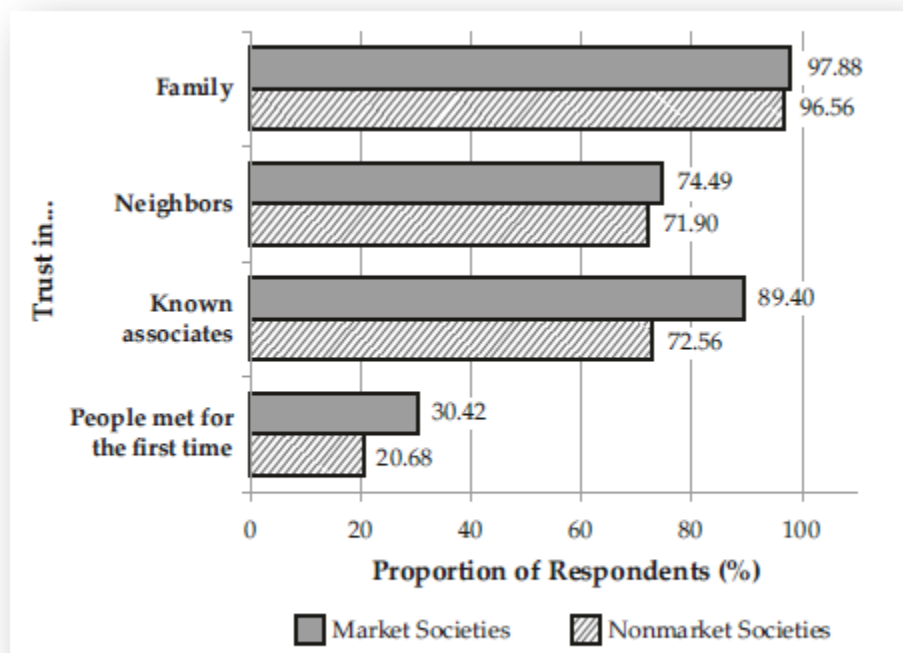
²⁰⁰ Indra de Soysa, Tor Georg Jakobsen, and Marthe Holum, “Free-Market Capitalism, Interpersonal Trust, and Trust in Political Institutions: A Multilevel Empirical Analysis, 1994-2014,” *Journal of Globalization Studies* 8:2 (2017): 11.

²⁰¹ Mark L. Movsesian, “Markets and Morals: The Limits of *Doux Commerce*,” *William and Mary Business Law Review* 9:2 (2018): 464-465.

²⁰² De Soysa, Jakobsen, Holum, “Free-Market Capitalism, Interpersonal Trust, and Trust in Political Institutions,” 10.

associates (including friends and colleagues), those they meet for the first time and strangers.” Or, in other words, “people around the world seem to have equally strong core networks, but those living in market societies seem to have stronger periphery networks.”²⁰³

Figure 4. Market vs. Nonmarket Societies on Trust



Source: Storr and Choi, *Do Markets Corrupt Our Morals?*, pg. 180.

In support of these highlighted studies, a review of the survey-based literature confirms that “there is...considerable evidence that experiences of institutional

²⁰³ Storr and Choi, *Do Markets Corrupt Our Morals?*, 179-180.

quality...causally influences social trust.”²⁰⁴ Market-based economic institutions appear to have a positive impact on trust. However, one of the criticisms of the trust literature—one of the “deadly sins”—“is that responses to the trust question [in surveys] do not generally predict trusting behavior in real-world micro-level experiments or in trust games...People are always *more* trusting and trustworthy in experiments and games than they would appear to be in surveys[.]”²⁰⁵ This suggests that microlevel data is a more accurate way to measure institutional influence on trust.

Trust Games

Storr and Choi perform two different laboratory experiments to test the effects of market interactions on trust.²⁰⁶ In one experiment, participants are able to engage in buying and selling with the option to cheat on accepted offers. This results in the cheater (an option available only to the one proposing the offer) obtaining both the good and the cash, leaving the trade partner empty-handed. This design is meant to make “dealing with a cheater costly. As such, it should be harder to develop positive relationships characterized by trust and reciprocity in our trading game than in actual markets.”²⁰⁷ These market interactions are then followed up with trust games in which the trustor splits a particular sum and sends it to the trustee. The amount is multiplied enroute to the

²⁰⁴ Peter Thisted Dinesen and Rene Bekkers, “The Foundations of Individuals’ Generalized Social Trust: A Review,” in *Trust in Social Dilemmas*, ed. Paul A.M. Lange, Bettina Rockenbach, and Toshio Yamagishi (New York: Oxford University Press, 2017), 92.

²⁰⁵ Nowrasteh and Forrester, “Trust Doesn’t Explain Regional U.S. Economic Development,” 6 (*italics mine*).

²⁰⁶ Ginny Seung Choi and Vigril Henry Storr, “Market Institutions and the Evolution of Culture,” *Evolutionary and Institutional Economics Review* 15:2 (2018): 243-265; *Do Markets Corrupt Our Morals?*, 205-212.

²⁰⁷ Storr and Choi, *Do Markets Corrupt Our Morals?*, 206.

trustee, who is then given the opportunity to split the sum between the two or keep the entire amount. “The trustor’s transfer is popularly interpreted as measuring trust... The trustee’s transfer is popularly interpreted as measuring trustworthiness[.]”²⁰⁸

Storr and Choi discover “that market interactions promote the emergence of interpersonal trust and that the observed heterogeneity in trust is directly correlated with the perceived quality of a subject’s particular market interactions.”²⁰⁹ The results show that trustors send nearly 50% more tokens (5.3 vs. 3.5) to those they have positive market interactions with than to those with whom they share negative experiences (cheaters). Even strangers (i.e., people they never completed a deal with) receive more tokens than cheaters. Similarly, trustees reward those they have positive relationships with more than negative relationships. However, trustees appear to treat negative, ambiguous, and stranger relationships equally. Storr and Choi conclude, “Arguably, our experiment suggests that it is possible for individuals to develop positive relationships characterized by trust and trustworthiness within a market setting and for those positive market-originated relationships to carry over into nonmarket settings.”²¹⁰ However, the results cannot indicate the extent of the spillovers or the depth of the market-forged relationships.

In a second experiment, Storr and Choi remove the ability to cheat, with acceptance of an offer resulting in the immediate exchange of goods and cash. In follow-up trust games, the participants treat positive relationships the same as strangers. “In

²⁰⁸ Ibid., 207.

²⁰⁹ Ibid., 208.

²¹⁰ Ibid., 210.

other words, a culture where everyone treated others more or less equally and indiscriminately emerged in this new experimental market while a culture where people discriminated between the trustworthy and untrustworthy emerged in the original experimental market.”²¹¹ The authors stress that participants “had no ability to communicate with one another except through their offers and counter offers. And, they knew nothing about the other subjects in the experimental market...except for an experimental identity that made them recognizable to other subjects throughout the experiment.”²¹² This means the relationships are purely commercial, with no distortions stemming from race, sex, religion, etc. In short, when corruption and dishonesty are absent from the marketplace, trust and equal treatment emerge. When corruption and dishonesty are factors (as they are in the real world), trustworthiness is incentivized and dishonesty is stigmatized.²¹³

Using similar trust games to Storr and Choi, Omar Al-Ubaydli *et al.*’s laboratory experiments prime random participants to unconsciously think about markets. The results indicate that a market mindset makes people more trusting of others. The researchers explain,

Using randomized control, we find evidence that priming markets leaves people more optimistic about the trustworthiness of anonymous strangers and therefore increase trusting decisions and, in turn, social efficiency...Absent markets, economic interactions with strangers tend to be negative. Market proliferation allows good things to happen when interacting with strangers, thus encouraging optimism and leading to more trusting behavior. Participation in markets, rather

²¹¹ Ibid., 211.

²¹² Ibid., 212.

²¹³ Of course, not all forms of dishonesty are as blatant as the form in this experiment. Deception can sometimes take years to uncover, if it is uncovered at all. Even still, some participants did experience dishonesty in the experiment and responded to cheaters with less trust and less investment.

than making people suspicious, makes people more likely to trust anonymous strangers. Our results seem therefore to corroborate the idea of *doux commerce*.²¹⁴

Another study selects internet business professionals from two cutthroat industries: domain trading and online adult entertainment. Multiple laboratory games between these internet professionals and Berkeley students yield surprising results: “Compared to students in the lab, internet business people were twice as likely to be trustworthy and over 50% more likely to trust in a trust game. Internet business people contributed over 250% more in dictator games. They lie one-third less often than students.” In short, “internet business people were, on the whole, ‘nicer’ than students.”²¹⁵ The researchers in an earlier study perform similar experiments with company CEOs and students. Although CEOs are often caricatured as being “particularly selfish,” the results of the experiments display a “sharp contrast to this conjecture”: “in our experiments CEOs exhibited much more trusting and trustworthy behavior than students and, as a consequence, they achieved substantially higher efficiency levels in their transactions.”²¹⁶

Finally, an interesting 2010 study uses both surveys and trust games to analyze trusting and trustworthy behavior among three villages in rural China.²¹⁷ Surveys are

²¹⁴ Omar Al-Ubaydli, Daniel Houser, John Nye, Maria Pia Paganelli, Xiaofei Sophia Pan, “The Causal Effect of Market Priming on Trust: An Experimental Investigation Using Randomized Control,” *PLoS ONE* 8:2 (2013): e55968. doi:10.1371/journal.pone.0055968.

²¹⁵ Mitchell Hoffman and John Morgan, “Who’s Naughty? Who’s Nice? Experiments on Whether Pro-Social Workers are Selected Out of Cutthroat Business Environments,” *Journal of Economic Behavior and Organization* 109 (2015): 185.

²¹⁶ Ernst Fehr and John A. List, “The Hidden Costs and Returns of Incentives—Trust and Trustworthiness Among CEOs,” *Journal of the European Economic Association* 2:5 (2004): 744.

²¹⁷ Qin Tu and Erwin Bulte, “Trust, Market Participation and Economic Outcomes: Evidence from Rural China,” *World Development* 38:8 (2010): 1179-1190.

used to measure “local trust” (i.e., toward friends and families), while trust games are used to measure “generalized trust” (i.e., toward the larger community, including possibly strangers). The results of the trust games indicate that trusting and trustworthy behavior go hand-in-hand. Furthermore, households with high levels of generalized trust²¹⁸ are more liable to participate in formal labor markets rather than informal labor exchanges with friends and family. While the direct of causality between markets and trust is not established, the authors note that it is possible “that trust and formal institutions are complements in the sense that greater trust results in greater market participation.”²¹⁹ Trust results in market-based cooperation with strangers and market-based cooperation with strangers builds generalized trust.

Cooperation

Trust and trustworthiness ultimately manifest in efficient cooperation. “The most successful societies,” explains Rose, “are those that support the greatest scale and scope of cooperation. To get the most out of large-group cooperation we have to be able to trust each other in large-group contexts.”²²⁰ In essence, cooperation *is* trust and trustworthiness put into practice. Nancy Buchan of the University of South Carolina has done extensive work on the effects of economic globalization on cooperation. In agreement with Storr

²¹⁸ It turns out that “local trust steers agents into informal arrangements, discouraging market participation and slowing down the generation of positive attitudes toward strangers” (Ibid., 1187).

²¹⁹ Ibid., 1187.

²²⁰ Rose, *Why Culture Matters Most*, 7.

and Choi, an early study by Buchan and others demonstrates that cooperation declines with increased social distance (e.g., neighbors vs. strangers).²²¹

In several studies,²²² Buchan and her colleagues draw samples from the general populations of Italy, Russia, Argentina, South Africa, Iran, and the United States. The participants then engage in contribution experiments in which they are able to allocate resources to a personal, local, or global account with varying returns. “Among subjects drawn from the general populations of six countries widely varying in levels of globalization,” Buchan *et al.* write,

our results demonstrate that higher levels of globalization, at both the aggregate country and individual levels, are associated with greater propensities to favor cooperation with globally distal others compared with compatriots living in the same locality...In other words, globalization may reduce an individual’s perceived social distance with geographically distant others, thus being conducive to an increased propensity to cooperate with them[.]²²³

However, when the separate effects of economic, political, social, and cultural globalization are teased out, the influence of economic globalization “is not significantly

²²¹ Nancy R. Buchan, Rachel T.A. Croson, Robyn M. Dawes, “Swift Neighbors and Persistent Strangers: A Cross-Cultural Investigation of Trust and Reciprocity in Social Exchange,” *American Journal of Sociology* 108:1 (2002): 168-206.

²²² Nancy R. Buchan, Gianluca Grimalda, Rick Wilson, Marilynn Brewer, Enrique Fatas, and Margaret Foddy, “Globalization and Human Cooperation,” *Proceedings of the National Academy of Sciences* 106:11 (2009): 4138-4142; Nancy R. Buchan and Gianluca Grimalda, “Reducing Social Distance: The Role of Globalization in Global Public Goods Provision,” in *Advances in Group Processes*, Vol. 28, ed. Shane R. Thye and Edward J. Lawler (New York: Emerald Group Publishing, 2011); Nancy R. Buchan, Marilynn B. Brewer, Gianluca Grimalda, Rick K. Wilson, Enrique Fatas, and Margaret Foddy, “Global Social Identity and Global Cooperation,” *Psychological Science* 22:6 (2011): 821-828; Nancy R. Buchan, Enrique Fatas and Gianluca Grimalda, “Connectivity and Cooperation,” in *The Oxford Handbook of Economic Conflict Resolution*, ed. Rachel Croson and Gary E. Bolton (New York: Oxford University Press, 2012); Gianluca Grimalda, Nancy Buchan, and Marilynn Brewer, “Social Identity Mediates the Positive Effect of Globalization on Individual Cooperation: Results from International Experiments,” *PLoS One* 13:12 (2018): e0206819.

²²³ Buchan *et al.*, “Globalization and Human Cooperation,” 4141.

different from zero.” The influence of the other three on cooperation are both positive and significant. Buchan and Grimalda suggest that “economic globalization...is the *least* likely to reduce social distance with global others” compared to other forms of globalization.²²⁴

While the study reports no *negative* effects of economic globalization on cooperation, its seemingly insignificant impact goes against the notion of trust-promoting markets. Yet, there appears to be more overlap between the categories than a cursory reading might reveal. The researchers define *economic globalization* as “involvement in economic transactions that transcend borders. This includes the purchase or consumption of commodities produced by multinationals or foreign firms, the use of instruments of monetary or financial transactions that are global in character, and whether one is employed in a multinational firm or belongs to professional organizations that span borders.” *Social globalization* refers “to *personal* interactions that connect an individual to distal others,” including “technology-mediated personal contacts among people (e.g., e-mail and mobile phones)[.]” *Cultural globalization* includes “an individual’s connectedness, consumption, and involvement in transnational and international...information and cultural products (e.g., news, music, art, and religion)[.]”²²⁵

The study shows that both social and cultural globalization have positive and significant effects on cooperation. However, based on the way the authors define them

²²⁴ Buchan and Grimalda, “Reducing Social Distance,” 174-175.

²²⁵ *Ibid.*, 162.

here, both are arguably forms and/or results of economic globalization.²²⁶ “Technology-mediated personal contacts” require global markets in technology. Multinational companies like Facebook, Google, and Apple provide popular means of communicating with people across the world, making global sociality possible. Global markets build social networks. People also buy and sell cultural products like music and art on the international market. For example, an American male in Texas might enjoy watching the Japanese anime series *Haikyuu!!* through a paid subscription to an America-based streaming company (Netflix). When the Japanese anime studio (Production I.G.) releases the next season, this Texan may consume it through another paid subscription to a different American distributor (Crunchyroll). While waiting for the new season to come out, he may listen to the series’ OP songs through a paid subscription to a Swedish streaming outlet (Spotify) as he reads the translated manga version he ordered through a multinational corporation (Amazon). Both social and cultural globalization as defined by Buchan and Grimalda are mediated through economic exchange. This indicates that their study’s results may actually undersell the positive impact of economic globalization through too narrow a definition.

Devesh Rustagi and colleagues further capture the cooperation-inducing nature of markets. Their study relies on individuals from 49 forest user groups in Ethiopia. The Ethiopian government had given these pastoral groups “secure tenure rights to use and manage their forests as common property resources.”²²⁷ Using a public goods game

²²⁶ See Tyler Cowen, *Creative Destruction: How Globalization Is Changing the World’s Culture* (Princeton, NJ: Princeton University Press, 2002).

²²⁷ Devesh Rustagi, Stefanie Engel, Michael Kosfeld, “Conditional Cooperation and Costly Monitoring Explain Success in Forest Commons Management,” *Science* 330 (12 Nov. 2010): 961.

similar to Buchan *et al.*, the researchers discover that—after controlling for elevation, group size, share of female members, and heterogeneity in livestock ownership—those living closer to markets are more cooperative.²²⁸ “Here market contact seems to have caused people to be more cooperative in anonymous situations...[T]he experience of markets changes our sociality to make it easier to construct and enforce certain kinds of institutions – increasing institutional quality.”²²⁹

Summary

“Market systems require a high degree of generalized trust and trustworthiness in order to function,” observes philosopher Jason Brennan. “Consider the fact that I could fly to Hong Kong, a city I have never visited, flash a credit card, and be supplied a luxury car, all on my promise to pay. Somehow, markets societies make this promise mean something.”²³⁰ In general, the evidence above supports the following conclusions: (1) greater trade openness and economic freedom are associated with reductions in governmental corruption as well as reductions in more widespread dishonest behavior; (2) economic freedom lays the groundwork for further anti-corruption reforms and institutions (e.g., democracy); (3) trust and markets are engaged in a virtuous cycle, with market exchange both requiring and incentivizing trusting/trustworthy behavior. It appears that greater market exposure is also associated with increased cooperation. However, narrow definitions of economic globalization seem to drive down the potency

²²⁸ The number of potential crop trees (PCT) per hectare in the different managed areas represents the cooperative performance of the various groups. It turns out “an increase in market distance by 1 hour of walking time reduces the forest management outcome on average by 21 PCT per hectare” (Ibid., 963).

²²⁹ Daniel J. Hruschka and Joseph Henrich, “Prosocial Behavior, Cultural Differences in,” in *International Encyclopedia of the Social and Behavioral Sciences*, 2nd ed. (Amsterdam: Elsevier, 2015), 240.

²³⁰ Jason Brennan, *Why Not Capitalism?* (New York: Routledge, 2014), 68.

of its relationship with cooperation. Nonetheless, no *negative* effects are found. All of this indicates that numbers 2, 3, and 4 of the Big Six can be answered in the affirmative: commerce *does* promote and *is* associated with honesty, trust, and cooperation.

CHAPTER 3

“COMMERCE CURES DESTRUCTIVE PREJUDICES”:

FAIRNESS AND TOLERANCE²³¹

Drawing on his analysis of the World Values Survey, political scientist Ronald Inglehart writes, “People’s values and behavior are shaped by the degree to which survival is secure.”²³² These values fall under the broad categories of Materialist vs. Postmaterialist outlooks. The former focuses on economic and physical security (also known as “survivalist” values), while the latter places an emphasis on individual choice (also known as “self-expression” values).²³³ “People with Self-expression values give high priority to...tolerance of diversity and rising demands for participation in decision-making in economic and political life...The shift from Survival values to Self-expression values also includes a shift in child-rearing values, from emphasis on hard work toward emphasis on imagination and tolerance as important values to teach a child.”²³⁴ When it comes to “the ratio between Materialists and Postmaterialists,” Inglehart notes that it “varies tremendously according to a society’s level of economic development. Low-income countries and strife-torn countries show an overwhelming preponderance of Materialists, while prosperous and secure ones are dominated by Postmaterialists.”²³⁵

²³¹ This chapter draws in part on Walker Wright, “Is Commerce Good for the Soul?: An Empirical Assessment,” *Economic Affairs* 38:3 (2018): 422-433.

²³² Ronald F. Inglehart, *Cultural Evolution: People’s Motivations Are Changing, and Reshaping the World* (Cambridge, UK: Cambridge University Press, 2018), 1.

²³³ *Ibid.*, 12. See also World Values Survey, “Findings and Insights”; <http://www.worldvaluessurvey.org/WVSContents.jsp>

²³⁴ *Ibid.*, 37, 39.

²³⁵ *Ibid.*, 30.

Interpreting the graph above, social psychologist Jonathan Haidt sees the shift in values as two-fold. “Pre-industrial farming cultures,” he writes, “generally have traditional and survival values (they cluster in the bottom left quadrant of the map). Life is hard and unpredictable, so you should do your duty, pray to the gods, and cling to your extended family for protection.” However, as societies become wealthier, they tend to take the next two steps:

First, countries move...from traditional/survival values to secular/survival values. When money comes from fitting yourself into the routines of factory production, there’s little time or room for religious ritual. People express materialistic values...they want money, not just for security, but for the social prestige it can buy...But if you just wait a few generations, you usually get the second step. Societies transition to more service-based jobs, which require (and foster) very different skills and values compared to factory jobs...The generation raised with these “open minds” and “expressive values” starts caring about women’s rights, animal rights, gay rights, human rights, and environmental degradation. They start expecting more out of life than their parents did...*Capitalism changes conscience.*²³⁷

The data above suggest that economic development produces an environment that allows values like fairness and tolerance to thrive. Haidt sees this development as the outcome of market-based systems; an *indirect* consequence of economic liberalization. However, Haidt also seems to suggest it is not simply the economic results of the market that produce these values, but the work of the market itself. This chapter will examine more direct connections between the market, fairness, and tolerance.

²³⁷ Jonathan Haidt, “How Capitalism Changes Conscience,” Center for Humans and Nature (Sept. 28, 2015): <https://www.humansandnature.org/culture-how-capitalism-changes-conscience> (italics original).

Defining “Fairness”

Before looking at the evidence of *doux commerce*’s relation (or lack of) with fairness, it is important to define what is meant by *fairness*. In this study, *fairness* means *the impartial and equal treatment of others under similar circumstances*. In *The Righteous Mind*, Jonathan Haidt explains the six foundations of human morality in what is known as the Moral Foundations Theory. Two of these foundations are related to this study’s definition of *fairness*. One focuses on reciprocity and proportionality: “people should be rewarded in proportion to what they contribute, even if that guarantees unequal outcomes.”²³⁸ This falls in line with Montesquieu’s concept of “exact justice.”²³⁹ The other moral foundation captures the egalitarian impulse for equal rights alongside an aversion to dominating hierarchies. It serves as “the moral matrix of revolutionaries and ‘freedom fighters’ everywhere” and, in Haidt’s view, the Declaration of Independence’s claim that “all men are created equal.”²⁴⁰ Or, to relate it once again to Montesquieu, his

²³⁸ Jonathan Haidt, *The Righteous Mind: Why Good People are Divided by Politics and Religion* (New York: Pantheon Books, 2012), 161.

²³⁹ Montesquieu, *The Spirit of the Laws*, 339. In Montesquieu’s philosophy, exactly just conduct “demands the market price, and it pays the market price -- not a penny more.” Montesquieu recognizes that this commercial value of “exact justice” might supplant other, seemingly more generous virtues such as hospitality. He points out that bandits—who obviously make careers out of theft—are “rich in hospitality...At its best, the spirit of hospitality turns a stranger into a friend. The commercial spirit, by contrast, can do no such thing. But it makes the innkeeper habitually inclined to treat the stranger justly, uniting the two through the rules of market exchange.” For Montesquieu, however, both banditry and hospitality derive “from a more general forgetfulness about the boundaries...between individuals...[T]hese boundaries can both separate each from other, blocking union, and protect each from other, marking out distinct spheres of personal liberty. Forgetfulness of these fences may be noble when it redounds to the benefit of others; but of course, it also leads to banditry.” What’s more, this hospitality is usually limited to the in-group. “Even the most hospitable bandits must rob somebody” and that somebody is typically an outsider. To the contrary, “exact justice” can be “felt wherever a potential customer or business partner appears.” This “habitual observance of justice in the myriad mundane transactions of a commercial society gives rise to the *sentiment de justice exacte*,” which then “extends beyond the marketplace to all departments of human life” (Keegan Callahan, *Montesquieu’s Liberalism and the Problem of Universal Politics*. Cambridge, UK: Cambridge University Press, 2018, 227-230).

²⁴⁰ Haidt, *The Righteous Mind*, 201.

belief that “men are born in equality...Society makes them lose their equality, and they become equal again only through the laws.”²⁴¹

The focus on fair *treatment* helps avoid potential mismeasurements. For example, some may point to income inequality as evidence of unequal or unfair *treatment*. Though an interesting and important inquiry, *doux commerce* theorists never appear to claim that commerce will result in equal economic *outcomes*, putting it outside the scope of this thesis. Plus, it is difficult to disentangle income inequality due to unfair treatment from income inequality due to merit or preferences. As Nobel economist Angus Deaton points out, “progress creates inequality, and...inequality can sometimes be helpful--showing others the way, or providing incentives for catching up--and sometimes unhelpful--when those who have escaped [poverty] protect their positions by destroying the escape routes behind them.”²⁴² While unfair treatment that contributes to income inequality may be highlighted in this chapter, income inequality as a whole will not be addressed.

Economic Game Experiments

Researchers have advanced a number of experimental bargaining games in order to better understand human behavior. The ultimatum game, for example, provides a specific sum of money to two interacting participants. One participant is given the power to divide the sum between the two. If the other player accepts the division – whether it be 50:50 or 99:1 – then both players keep their share. If the second party rejects the offer, both go home empty-handed. Cultural anthropologist Joseph Henrich finds that proposers

²⁴¹ Montesquieu, *The Spirit of the Laws*, 114.

²⁴² Angus Deaton, *The Great Escape: Health, Wealth, and the Origins of Inequality* (Princeton, NJ: Princeton University Press, 2013), xiii.

from industrial societies (i.e., United States, Indonesia, Japan, Israel) tend to make offers of between 44 and 48 percent, while the Machiguenga of the Peruvian Amazon only offer 26 percent.²⁴³ Furthermore, responders from industrial societies reject offers below 20 percent as “unfair” whereas the Machiguenga do not, saying that “they would always accept any money” and that “it was just bad luck that they were responders, and not proposers.”²⁴⁴ Experiments with 15 small-scale agrarian societies – consisting of hunter-gatherers, horticulturalists, nomadic herders, and sedentary farmers – find groups that are more heavily immersed in trade and market exchange with outsiders to be less likely to make inequitable offers.²⁴⁵ Later experiments confirm “that fairness (making more equal offers) in transactions with anonymous partners is robustly correlated with increasing market integration.”²⁴⁶ The researchers explain,

extensive market interactions may accustom individuals to the idea that interactions with strangers may be mutually beneficial. By contrast, those who do not customarily deal with strangers in mutually advantageous ways may be more likely to treat anonymous interactions as hostile or threatening, or as occasions for the opportunistic pursuit of self-interest.²⁴⁷

²⁴³ Joseph Henrich, “Does Culture Matter in Economic Behavior? Ultimatum Game Bargaining Among the Machiguenga of the Peruvian Amazon,” *American Economic Review* 90:4 (2000): 973-979.

²⁴⁴ *Ibid.*, 976-977.

²⁴⁵ Joseph Henrich, Robert Boyd, Samuel Bowles, Colin Camerer, Ernst Fehr, Herbert Gintis, Richard McElreath, “In Search of Homo Economicus: Behavioral Experiments in 15 Small-Scale Societies,” *American Economic Review* 91:2 (2001): 73-78; Joseph Henrich, Robert Boyd, Samuel Bowles, Colin Camerer, Ernst Fehr, Herbert Gintis, Richard McElreath, Micahel Alvard, Abigail Barr, Jean Ensminger, Natalie Smith Henrich, Kim Hill, Francisco Gil-White, Michael Gurven, Frank W. Marlowe, John Q. Patton, David Tracer, ““Economic Man” in Cross-Cultural Perspective: Behavioral Experiments in 15 Small-Scale Societies,” *Behavioral and Brain Sciences* 28:6 (2005): 795-815.

²⁴⁶ Joseph Henrich, Jean Ensminger, Abigail Barr, Richard McElreath, “Major Empirical Results: Markets, Religion, Community Size, and the Evolution of Fairness and Punishment,” in *Experimenting with Social Norms: Fairness and Punishment in Cross-Cultural Perspective*, ed. Joseph Henrich and Jean Ensminger (New York: Russell Sage Foundation, 2014), 132.

²⁴⁷ Joseph Henrich, Robert Boyd, Samuel Bowles, Colin F. Camerer, Ernst Fehr, Herbert Gintis, Richard McElreath, “Overview and Synthesis,” in *Foundations of Human Sociality: Economic Experiments and Ethnographic Evidence from Fifteen Small-Scale Societies*, ed. Joseph Henrich, Robert Boyd, Samuel Bowles, Colin Camerer, Ernst Fehr, Herbert Gintis (New York: Oxford University Press, 2004), 46.

Market institutions therefore aid in the establishment of social norms of trust, cooperation, and fairness as well as a kind of “other-regardingness.”²⁴⁸ “Empirically,” write Henrich and his co-authors, “the smaller-scale, least anonymous, and most face-to-face societies are generally less prosocial...while larger, more complex, and more anonymous societies are more prosocial.”²⁴⁹

Gender Equality

Equal treatment of women continues to be a global issue. According to a recent study, women “are accorded about three-quarters the number of rights as men” in the average country.²⁵⁰ As a means of addressing this inequality, philosopher Ann Cudd contends that a market economy “promotes social innovation, in particular the destruction of harmful, patriarchal traditions.” Economic liberalization, she says, “tends to bring women out of the home and into public life in the marketplace by making their labor outside of the home more valuable than it is within.”²⁵¹ Obviously, not all women have a desire to participate in the labor market. However, “[l]ow levels of economic participation...have important implications for wider aspects of women’s position. Their absence from the public sphere implies more presence in the private one, resulting in power imbalances and gender inequalities. Women’s limited access to economic opportunities reduces their resilience and makes them financially dependent on men,

²⁴⁸ Oman, *The Dignity of Commerce*, 44.

²⁴⁹ Henrich *et al.*, “Major Empirical Results,” 135.

²⁵⁰ Marie Hyland, Simeon Djankov, and Pinelopi Koujianou Goldberg, “Gendered Laws and Women in the Workforce,” PIIE Working Paper 20-7 (May 2020), 7; <https://www.piie.com/publications/working-papers/gendered-laws-and-women-workforce>

²⁵¹ Ann E. Cudd, “Is Capitalism Good for Women?” *Journal of Business Ethics* 127 (2015): 766.

which creates and maintains other types of dependence (affective, social, in terms of decision-making, and so on). It also constrains their access to basic needs such as health and education.”²⁵² This is why Cudd believes market liberalization “reduces the oppression of traditional societies that impose hierarchies of gender and caste.”²⁵³

Historical examples seem to back Cudd’s claim. Case in point, marriages in preindustrial societies were “dominated by considerations of *status*. The husband’s legal position as owner of everything, along with his role as head of household production and the wife’s corresponding inability to write contracts or own property in her own name, made the wife subservient to the husband.” As industrialization moved more and more economic activity outside of the home, “the split between market and household production eroded some of the male’s dominance over the household as he could no longer treat wives and children as inputs to the generation of household income.”²⁵⁴ In economist Steven Horwitz’s estimation, “[o]ne of the key barriers” to this transformation in family/gender relations “in the early twentieth century was labor market protective legislation that limited women’s employment options. These laws applied to women only and specified maximum hours, minimum wages, and working conditions for a number of jobs that had a significant female presence. Some jobs were also off-limits to women under any conditions.”²⁵⁵ The “gradual disappearance” of these legal barriers “over the course of the century was a victory for classical liberal notions of equality.”²⁵⁶ By the

²⁵² Souad Adnane, “Economic Freedom and Women’s Emancipation in the MENA Region,” *Economic Affairs* 35:3 (2015): 421-422.

²⁵³ Cudd, “Is Capitalism Good for Women?” 766.

²⁵⁴ Steven Horwitz, *Hayek’s Modern Family: Classical Liberalism and the Evolution of Social Institutions* (New York: Palgrave Macmillan, 2015), 103.

²⁵⁵ *Ibid.*, 104.

²⁵⁶ *Ibid.*, 105.

1970s, American women had entered into what Claudia Goldin calls “a quiet revolution” regarding their economic status, including expanding career opportunities and changing identities that were no longer necessarily rooted in their relationship with men.²⁵⁷

Economist Victoria Bateman forcefully argues that “anonymous markets...opened doors for women...Indeed, one of the most noticeable aspects of the period in the twentieth century which was associated with a return to free-market thinking was a social revolution. Rapid social change culminated in dramatic changes in the laws affecting homosexuals, ethnic minorities and women.”²⁵⁸ What is the empirical evidence--if any--for these claims regarding women and the market?

According to Heath and Mobarak, the garment sector in Bangladesh has grown significantly since the 1980s and currently makes up more than 75% of the country’s export earnings. About 80% of their garment factory workers are female, while around 15% of women between 16 and 30 years-of-age work in the industry. Heath and Mobarak find that closer proximity to a garment factory and consequently greater exposure to this export-heavy industry leads to a number of different outcomes for women. These include delayed marriage and childbearing (and thus reduced child marriage) and more years of educational attainment (and thus a more narrow gender education gap). This seems to indicate greater female valuation in the family and society at large as well as greater female autonomy.²⁵⁹

²⁵⁷ Claudia Goldin, “The Quiet Revolution That Transformed Women’s Employment, Education, and Family,” *American Economic Review* 96:2 (2006): 1-21.

²⁵⁸ Victoria Bateman, *The Sex Factor: How Women Made the West Rich* (Medford, MA: Polity Press, 2019), 111.

²⁵⁹ Rachel Heath and A. Mushfiq Mobarak, “Manufacturing Growth and the Lives of Bangladeshi Women,” *Journal of Development Economics* 115 (2015): 1-15. Benjamin Powell and David Skarbek find garment workers in developing countries tend to be better paid than the average worker in these same countries:

Looking at China, Yu, Zhang, and Wen find that foreign investment liberalization boosts female promotions and skills, both of which contribute to women's economic status and independence.²⁶⁰ This economic independence is often associated with other forms of independence and independent attitudes. For example, a rural woman in modern China who migrates to the city for economic opportunities is “more likely to meet her future husband on her own, marry later, want fewer children, give birth in a hospital, seek equality in marriage, and view divorce as an acceptable option. More than 60 percent of migrant women in one survey cited either ‘building a happy home’ or ‘having a partner in the career struggle’ as the purpose of marriage, while fewer than 10 percent chose ‘having someone to rely on for life.’”²⁶¹

Richards and Gelleny explore the effects of economic globalization--measured by FDI, portfolio investment, trade openness, and IMF and World Bank structural adjustment policies--on “the extent to which women are able, both in an absolute and relative sense, to exercise precise rights codified in a large body of international human rights law and to enjoy the objectives of those rights” (what they call women's “status”).²⁶² Overall, they find,

“[I]f working 70 hours per week, apparel workers’ average income exceeds the average income in each [analyzed] country. In nine of ten nations, average apparel industry income exceeds the national average at only 50 hours per week. Apparel workers in the Dominican Republic, Haiti, Honduras, and Nicaragua earn three to seven times the national average” (“Sweatshops and Third World Living Standards: Are the Jobs Worth the Sweat?” *Journal of Labor Research* 27:2, 2006: 265). For a more in-depth analysis, see Benjamin Powell, *Out of Poverty: Sweatshops in the Global Economy* (Cambridge, UK: Cambridge University Press, 2014).

²⁶⁰ Linhui Yu, Junsen Zhang, Yanbing Wen, “Does Foreign Investment Liberalisation Enhance Women's Economic Status? Micro-evidence from Urban China,” *The World Economy* 42:12 (2019): 3404-3429.

²⁶¹ Leslie T. Chang, *Factory Girls: From Village to City in a Changing China* (New York: Spiegel and Grau, 2009), 224. For more on the economics of China's internal migration, see Bradley M. Gardner, *China's Great Migration: How the Poor Built a Prosperous Nation* (Oakland, CA: Independent Institute, 2017).

²⁶² David L. Richards and Ronald Gelleny, “Women's Status and Economic Globalization,” *International Studies Quarterly* 51 (2007): 856.

First, women's status in a given country appears to be reliably associated with that country's involvement in the global economy. Second, the relationship between economic globalization and women's status differs by type of globalization, type of status, and era. Third, we found more support for the claim that economic globalization should improve women's status, than for the claim that it should be expected to degrade women's status. Sixty-seven percent of the statistically significant globalization coefficients indicated an association with improved women's status.²⁶³

Neumayer and De Soysa find that increased trade openness reduces forced labor among women and increases their economic rights, including equal pay for equal work, equality in hiring and promotion practices, and the right to gainful employment without the permission of a husband/male relative.²⁶⁴ Analyzing global data between 1981 and 2007, they also find that increased trade openness improves not only economic rights but social rights as well. These rights consist of (1) the right to initiate a divorce, (2) the right to an education, (3) freedom from forced sterilization, and (4) freedom from female genital mutilation without consent.²⁶⁵ A 2006 study looks at four measures of women's equality: (1) life expectancy at birth, (2) female illiteracy rates past 15 years of age, (3) female percentage share of the workforce, and (4) female percentage share of seats in parliament. The authors find "that more often than not, when domestic cultures are more open to international influences, outcomes for women improve, as measured by health, literacy, and participation in the economy and government. Membership in the UN and World Bank, along with international trade and investment activity, are frequently

²⁶³ Ibid., 871.

²⁶⁴ Eric Neumayer and Indra de Soysa, "Globalisation, Women's Economic Rights and Forced Labour," *The World Economy* 30:10 (2007): 1510-1535.

²⁶⁵ Eric Neumayer and Indra de Soysa, "Globalization and the Empowerment of Women: An Analysis of Spatial Dependence via Trade and Foreign Direct Investment," *World Development* 39:7 (2011): 1065-1075.

associated with improved outcomes for women.”²⁶⁶ A 2008 study also finds that the level of economic freedom yields a stronger beneficial net impact than democracy for four measures of women’s absolute well-being (life expectancy, literacy rate, fertility and contraception use by women) and four measures of relative gender equality (female to male ratios of life expectancy rates, literacy rates, secondary education enrollment and labor force participation).²⁶⁷ Furthermore, a 2011 study measures the effects of economic freedom on the United Nations Development Project’s five components of women’s wellbeing. These five components are divided into three main categories: Reproductive Health (maternal mortality and adolescent fertility), Empowerment (female parliamentary representation and educational attainment), and Labor Market (female labor force participation rate). The author concludes that economic freedom improved all five between 1995 and 2008.²⁶⁸

In 2017, the Fraser Institute adjusted Area 2 of its EFW Index – legal system and property rights – to account for gender inequality.²⁶⁹ This new Gender Disparity Index (GDI) draws on the World Bank’s *Women, Business, and the Law* reports and includes the following variables: (1) freedom of movement, (2) property rights, (3) financial rights, (4) freedom to work, and (5) legal status.²⁷⁰ Complementing the research above,

²⁶⁶ Mark M. Gray, Miki Caul Kittilson, Wayne Sandholtz, “Women and Globalization: A Study of 180 Countries, 1975-2000,” *International Organization* 60:2 (2006): 326.

²⁶⁷ Michael D. Stroup, “Separating the Influence of Capitalism and Democracy on Women’s Well-Being,” *Journal of Economic Behavior and Organization* 67 (2008): 560-572.

²⁶⁸ Michael D. Stroup, “Does Economic Freedom Promote Women’s Well-Being?” in *Economic Freedom of the World: 2011 Annual Report*, ed. J.D. Gwartney, Robert Lawson, and Joshua C. Hall (Vancouver, BC: Fraser Institute, 2011).

²⁶⁹ Rosemarie Fike, “Adjusting for Gender Disparity in Economic Freedom and Why It Matters,” in *Economic Freedom of the World: 2017 Annual Report*, ed. J.D. Gwartney, Robert Lawson, Joshua Hall (Vancouver, BC: Fraser Institute, 2017).

²⁷⁰ Rosemarie Fike, *Women’s Economic Rights--What’s Changed and Why Does It Matter?* Women and Progress 2020 Report (Vancouver, BC: Fraser Institute, 2020), 3;

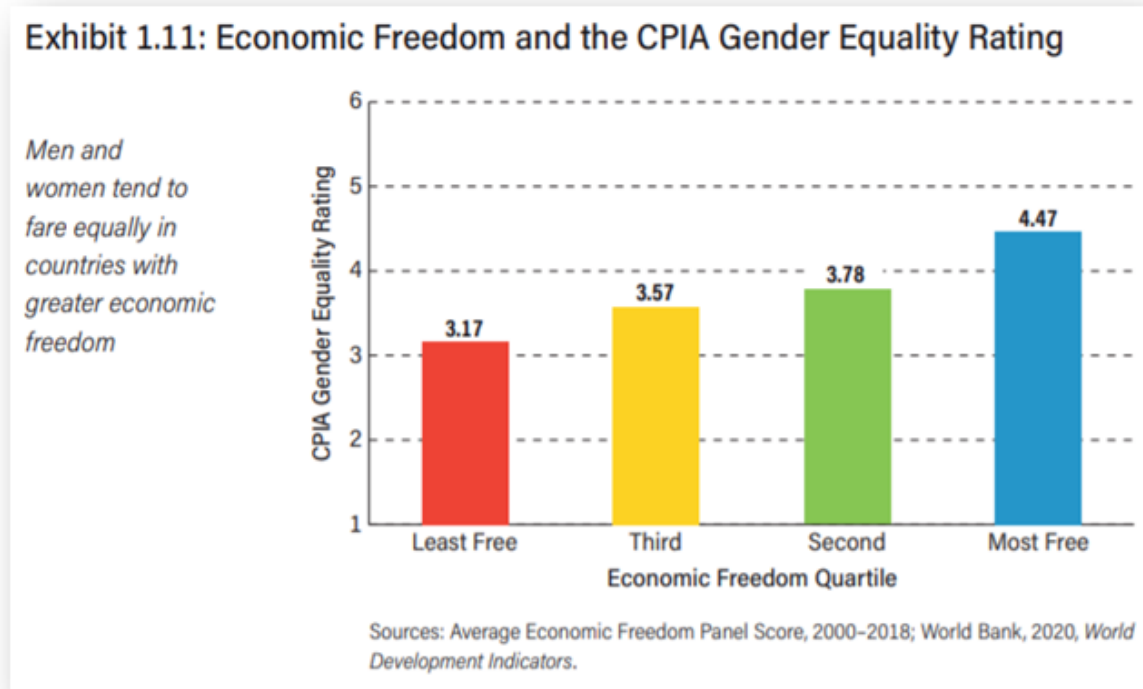
the adjusted EFW Index finds that women in countries with higher levels of economic freedom experience greater well-being in a number of areas than those in countries with lower levels of economic freedom:

- Women in economically free countries have a labor participation rate of 67.97% compared to 50.52% in the least free countries.
- Women in economically free countries are over 2.5 times more likely to work in the formal sector compared to those in the least free countries.
- Women live nearly 15 years longer, on average, in economically free countries.
- The literacy rate for adult women is, on average, 50% higher in economically free countries and 30% higher for adolescents.
- 96.7% of young girls in economically free countries complete the last grade of primary school compared to 80.11% of those in the least free countries.
- Women in economically free countries are over 2.5 times more likely to have a bank account.²⁷¹

<https://www.fraserinstitute.org/studies/womens-economic-rights-whats-changed-and-why-does-it-matter>

²⁷¹ Rosemarie Fike, *Impact of Economic Freedom and Women's Well-Being* (Vancouver, BC: Fraser Institute, 2018); <https://www.fraserinstitute.org/studies/impact-of-economic-freedom-and-womens-well-being>; Fike, *Women's Economic Rights*.

Figure 6. Economic Freedom's Relation to Gender Equality



Source: “Economic Freedom of the World in 2018,” pg. 21.

The evidence above appears to support the notion that economic liberalization is associated with the improved opportunities for women, leading to their more equal treatment in various sectors of society.

Tolerance

Some skeptics of the *doux commerce* theory point to “the recent clashes between LGBT couples and business owners who decline, from religious conviction, to provide services for same-sex weddings. Neither side is willing to look the other way, as the *doux commerce* thesis suggests they should--neither the LGBT couples, who could easily find other businesses to provide the services, nor the business owners, who could easily make

money, and avoid lawsuits, by providing them.”²⁷² However, others point to the exact opposite. For example, GMU economist Tyler Cowen praises “American big business” for leading

the way toward making America more socially inclusive. McDonald’s, General Electric, Procter & Gamble, and many of the major tech companies, among others, were defining health and other legal benefits for same-sex partners before the Supreme Court legalized gay marriage. Apple, Pfizer, Microsoft, Deutsche Bank, PayPal, and Marriott, among others, spoke out or protested the North Carolina law that sought to specify which restrooms transgender people had to use; the outcry led to the eventual repeal of the law.²⁷³

Cowen’s reasoning for these outcomes falls in line with many of the early *doux commerce* theorists, namely businesses do not “want any group of...customers to feel put out or discriminated against or to have cause for complaint...Profit maximization alone...puts business these days on the side of inclusion and tolerance.”²⁷⁴ While these opposing examples are certainly interesting, the validity of *doux commerce* cannot be verified/falsified based on a handful of anecdotes. What do the data suggest?²⁷⁵

Survey data can shed light on the relationship between market systems and the attitudes towards others. One study of international survey data finds “patriotism” (defined as a sense of national superiority) and “chauvinism” (defined as a “my country right or wrong” mentality) to be positively associated with opposition to global markets

²⁷² Movsesian, “Markets and Morals,” 472.

²⁷³ Tyler Cowen, *Big Business: A Love Letter to an American Anti-Hero* (New York: St. Martin’s Press, 2019), 5-6.

²⁷⁴ *Ibid.*, 6.

²⁷⁵ Benjamin Friedman has argued that economic growth leads to greater tolerance, suggesting an indirect relationship between markets and tolerance. See Benjamin M. Friedman, *The Moral Consequences of Economic Growth* (New York: Knopf, 2005).

across multiple countries.²⁷⁶ A 2003 study finds that anticapitalist views increase nationalism and ethnic intolerance among a number of formerly communist countries. With the exception of Austria, “anticapitalistic sentiments in the post-communist countries have the strongest influence on nationalist attitudes...[T]he results support the hypothesis that nationalism stems from a resentment against the economic rationalization of society, which is mainly held by people with lower social status.”²⁷⁷ Other studies show pro-trade attitudes to be negatively related to isolationism, nationalism, ethnocentrism, prejudice, and a high attachment to one’s own neighborhood.²⁷⁸ One pair of researchers finds that Americans with negative attitudes towards outsourcing suffer from an “us versus them” world view. They write:

The effects of [isolationism, nationalism, and ethnocentrism] are relatively large and independent of variables associated with self-interest and information. A change from the least globally interventionist attitudes registered by respondents to the polar opposite increases the predicted probability of consistently supporting outsourcing roughly five times. A shift from the least ethnocentric views to the most ethnocentric views increases the predicted value of consistently opposing outsourcing by over 50 percent as well. And a switch from the least nationalistic attitudes expressed to the most nationalistic increases this predicted probability by roughly 25 percent.²⁷⁹

²⁷⁶ Kevin H. O’Rourke and Richard Sinnott, “The Determinants of Individual Trade Policy Preferences: International Survey Evidence,” in *Brookings Trade Forum: 2001*, ed. Susan M. Collins, Dani Rodrik (Washington, DC: Brookings Institution Press, 2001).

²⁷⁷ Hilde Weiss, “A Cross-National Comparison of Nationalism in Austria, the Czech and Slovak Republics, Hungary, and Poland,” *Political Psychology* 24:2 (2003): 395-396.

²⁷⁸ Kent L. Granzin, Jeffrey D. Brazell, John J. Painter, “An Examination of Influences Leading to Americans’ Endorsement of the Policy of Free Trade,” *Journal of Public Policy and Marketing* 16:1 (1997): 93-109; Anna Maria Mayda and Dani Rodrik, “Why Are Some People (and Countries) More Protectionist Than Others?” *European Economic Review* 49:6 (2005): 1393-1430; Edward D. Mansfield and Diana C. Mutz, “Support for Free Trade: Self-Interest, Sociotropic Politics, and Out-Group Anxiety,” *International Organization* 63:3 (2009): 425-457.

²⁷⁹ Edward D. Mansfield and Diana C. Mutz, “US versus Them: Mass Attitudes toward Offshore Outsourcing,” *World Politics* 65:4 (2013): 596.

While these studies find a correlation between various forms of prejudice and trade attitudes, a 2014 study indicates that prejudice and nationalism play a *primary, causal* role in American opposition to international trade. The findings are “both real and strong: prejudice greatly increases protectionism.”²⁸⁰ In each of these studies, support for global commerce conflicts with intolerant attitudes toward foreigners and other ethnicities.

Employing data from the General Social Surveys from 1977 to 2010, Northwestern’s James Lindgren finds that intolerance, racism, anti-capitalism, and pro-redistribution go hand-in-hand. (Lindgren distinguishes between racism and intolerance, the latter referring to groups like racists, homosexuals, communists, militarists, and atheists.) Even after controlling for gender, logged income, education, age, and year of survey, Lindgren shows that “racism and intolerance still significantly predict redistribution and anti-capitalism.”²⁸¹ Lindgren’s analysis leads him to conclude, “Those who support capitalism and freer markets and oppose greater income redistribution tend to be better educated, to have higher family incomes, to be less traditionally racist, and to be less intolerant of unpopular groups.”²⁸²

²⁸⁰ Shahrzad Sabet-Esfahani, “Prejudice and Protectionism: Essays at the Intersection of International Political Economy and Psychology,” PhD dissertation, Harvard University, 2014, 6.

²⁸¹ James Lindgren, “Redistribution and Racism, Tolerance and Capitalism,” Northwestern Law and Econ Research Paper No. 13-05 (Feb. 28, 2013), 23; https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2226246.

²⁸² Ibid., 33. Arthur Brooks finds similar results: Americans who agree with the question “The government has a responsibility to reduce income inequality” are *less* likely to donate to both religious and secular charities than those who disagree, even when controlled for age, religion, income, gender, marital status, race, political views, and education. They are also *less* likely to give their time to charitable causes and activities. See Arthur Brooks, *Who Really Cares: The Surprising Truth About Compassionate Conservatism: America’s Charity Divide--Who Gives, Who Doesn’t, and Why It Matters* (New York: Basic Books, 2006), Ch. 3. Brooks also provides some evidence for a crowding-out effect of government welfare on private charity donations. However, the current state of the evidence is mixed. E.g., James Andreoni and Abigail Payne, “Charitable Giving,” in *Handbook of Public Economics*, Vol. 5, ed. Alan J. Auerbach, Raj Chetty, Martin

Several studies by economists Niclas Berggren and Therese Nilsson investigate the relationship between tolerance, economic freedom, and globalization. The evidence they gather from 59 countries suggests a (weak) causal relationship between economic globalization and the willingness of parents to teach their children tolerance.²⁸³ More specifically, their analysis of 69 countries finds that economic freedom plays a seemingly causal role in parents teaching their children tolerance as well as fostering tolerance toward homosexuals and people of different races (though the relationship to the latter appears to be largely insignificant).²⁸⁴ In particular, property-protecting, contract-enforcing legal systems and monetary stability have the strongest impact on tolerance. “The former...creates assurance that makes people not fear interaction with others. The market process is in turn enabled by the rule of law and makes possible this interaction between people, which can bring about tolerance, through internalization of an attitude of openness and generosity, through a conscious desire to advance one’s well-being or through reduced group pressure.”²⁸⁵ The latter “brings about more predictability and less arbitrary redistribution, which reduces social tensions and scapegoating, especially of groups with conspicuous consumption[.]”²⁸⁶ Focusing solely on the United States, Berggren and Nilsson find a similar causality: economic freedom increases tolerance

Feldstein, Emmanuel Saez (Amsterdam: Elsevier, 2013); Arjen de Wit and Rene Bekkers, “Government Support and Charitable Donations: A Meta-Analysis of the Crowding-Out Hypothesis,” *Journal of Public Administration Research and Theory* 27:2 (2017): 301-319; Daniel Tinkelman and Daniel Gordon Neely, “Revenue Interactions: Crowding Out, Crowding In, or Neither?” in *Handbook of Research on Nonprofit Economics and Management*, 2nd ed., ed. Bruce A. Seaman and Dennis R. Young (Cheltenham: Edward Elgar, 2018).

²⁸³ Niclas Berggren and Therese Nilsson, “Globalization and the Transmission of Social Values: The Case of Tolerance,” *Journal of Comparative Economics* 43 (2015): 371-389.

²⁸⁴ Niclas Berggren and Therese Nilsson, “Does Economic Freedom Foster Tolerance?” *Kyklos* 66:2 (2013): 177-207.

²⁸⁵ *Ibid.*, 200.

²⁸⁶ *Ibid.*, 195.

towards homosexuals, atheists, and communists.²⁸⁷ Another study of 68 countries finds that economic freedom increases tolerance toward homosexuals, particularly in societies that are high in trust: “the ability of formal institutions and market-oriented policy to generate tolerance is stronger the more people trust each other (and nonexistent at low trust levels). Hence, we expect institutional reform aiming to achieve more tolerance succeed best in high-trusting societies.”²⁸⁸ Given economic freedom’s positive association with trust (discussed in Ch. 2), this means that commerce could possibly play a dual role.

A more recent study by Berggren and Nilsson shows economic freedom’s mixed record when it comes to anti-Semitism. While the quality of legal systems has a negative relationship with anti-Semitism, market openness has a positive one.²⁸⁹ The authors suggest that the relationship between market openness and anti-Semitism is likely be explained by anti-Semitic stereotypes about Jews and their association with money, usury, and markets. For example, in his 1844 essay “On the Jewish Question,” Karl Marx declares that (a) “self-interest” is the very basis of Judaism, (b) money is the *real* God of the Jews, and (c) “huckstering” is the *true* Jewish religion.²⁹⁰ Marx argues that these peculiarly Jewish characteristics and values had now become widespread due to the

²⁸⁷ Niclas Berggren and Therese Nilsson, “Tolerance in the United States: Does Economic Freedom Transform Racial, Religious, Political and Sexual Attitudes?” *European Journal of Political Economy* 45 (2016): 53-70.

²⁸⁸ Niclas Berggren and Therese Nilsson, “Market Institutions Bring Tolerance, Especially Where There Is Social Trust,” *Applied Economic Letters* 21:17 (2014): 1237.

²⁸⁹ Niclas Berggren and Therese Nilsson, “Economic Freedom as a Driver of Trust and Tolerance,” in *Economic Freedom of the World: 2020 Annual Report*; “Economic Freedom and Antisemitism,” *Journal of Institutional Economics* (2010): 1-16; <https://doi.org/10.1017/S1744137420000466>.

²⁹⁰ Karl Marx, “On the Jewish Question,” *Deutsch-Französische Jahrbücher* (Feb. 1844); <https://www.marxists.org/archive/marx/works/1844/jewish-question/>

corrupting influence of the market system.²⁹¹ “For Marx,” writes historian Jerry Muller, “Jew-bashing becomes a tool for bashing the bourgeoisie.”²⁹² However, other empirical studies underscore the role commercial ties can play in eroding anti-Semitism.

When the Black Death hit Europe in the 14th century, Jews were scapegoated and intensely persecuted. Yet, when Protestant and Catholic regions of plague-stricken Germany are compared, anti-Semitic persecution is found to be lower in Catholic areas.²⁹³ This is due to the medieval Catholic Church’s ethic against usury and the role Jews played as moneylenders in these cities. In Protestant cities, Jews played a less economically complementary role, leaving them open to greater persecution. “These results suggest that when there are latent biases against minorities, shocks can lead to biases manifesting themselves as persecutions...However, when the minority and majority communities engage in economically complementary activities, then these relationships may be a powerful way to reduce inter-group conflict.”²⁹⁴ Furthermore, researchers find that German areas of more intense anti-Semitic persecution following the Black Death were also more likely to manifest anti-Semitic acts and attitudes in the first half of the 20th century (e.g., voting for the Nazi Party, more synagogue attacks during the “Night of Broken Glass”). However, these same researchers find that “cities with a

²⁹¹ See Muller’s discussion in *Capitalism and the Jews*, Ch. 1.

²⁹² Muller, *The Mind and the Market*, 186.

²⁹³ Sascha O. Becker and Luigi Pascali, “Religion, Division of Labor, and Conflict,” *American Economic Review* 109:5 (2019): 1764-1804; Remi Jedwab, Noel D. Johnson, Mark Koyama, “Negative Shocks and Mass Persecutions: Evidence from the Black Death,” *Journal of Economic Growth* 24 (2019): 345-395.

²⁹⁴ Jedwab, Johnson, Koyama, “Negative Shocks and Mass Persecutions,” 391.

strong tradition of long-distance trade...show significantly lower persistence [of anti-Semitism] over the long term than other communities.”²⁹⁵

Other, more qualitative evidence supports the studies above. In the 1990s, India moved away from a socialist command economy and adopted market-oriented reforms. In a book-length treatment of the results of this economic liberalization, economists Jagdish Bhagwati and Arvind Panagariya find that the growth since the reforms has reduced poverty nationwide in both rural and urban regions alike as well as among the most socially disadvantaged groups.²⁹⁶ This has initiated what economic journalist Swaminathan Aiyar calls an “assault on the Indian caste system.”²⁹⁷ Dalits occupy the lowest level of this caste hierarchy, to the point of being called “untouchables.” However, Dalit journalist Chandra Bhan Prasad argues that India’s economic boom has been “a golden period for Dalits...Because of the new market economy, material markers are replacing social markers. Dalits can buy rank in the market economy. India is moving from a caste-based to a class-based society, where if you have all the goodies in life and your bank account is booming, you are acceptable.”²⁹⁸ This has led to the creation of what seemed before to be an impossibility: a successful class of Dalit entrepreneurs.²⁹⁹

²⁹⁵ Nico Voigtlander and Hans-Joachim Voth, “Persecution Perpetuated: The Medieval Origins of Anti-Semitic Violence in Nazi Germany,” *The Quarterly Journal of Economics* 127:3 (2012): 1341.

²⁹⁶ Jagdish Bhagwati and Arvind Panagariya, *Why Growth Matters: How Economic Growth in India Reduced Poverty and the Lessons for Other Developing Countries* (New York: PublicAffairs, 2013).

²⁹⁷ Swaminathan S. Anklesaria Aiyar, “Capitalism’s Assault on the Indian Caste System: Economic Liberalization Spawned Low-Caste Dalit Millionaires,” Cato Institute Policy Analysis No. 776 (July 21, 2015): <https://www.cato.org/publications/policy-analysis/capitalisms-assault-on-the-indian-caste-system>

²⁹⁸ Lydia Polgreen, “Scaling Caste Walls With Capitalism’s Ladders in India,” *The New York Times* (Dec. 21, 2011): <https://www.nytimes.com/2011/12/22/world/asia/indias-boom-creates-openings-for-untouchables.html>

²⁹⁹ Devesh Kapur, D. Shyam Babu, Chandra Bhan Prasad, *Defying the Odds: The Rise of Dalit Entrepreneurs* (Haryana: Random House India, 2014); Harish Damodaran, *India’s New Capitalists: Caste, Business, and Industry in a Modern Nation* (Gurugram: Hachette India, 2018).

Survey data out of Uttar Pradesh also indicate that major shifts in social practices have taken place since 1990.³⁰⁰ To name a few: dalits were often seated separately--essentially segregated--at non-dalit weddings in 1990. By 2007, this had become a rare occurrence. Non-dalits almost never accepted food or drink from dalits when visiting a dalit home in the early 1990s. By 2007, accepting food/drink had risen to over 70% in eastern Uttar Pradesh and nearly 50% in the west. Non-dalits almost never midwived for dalit births in 1990. By 2007, it had become a regular occurrence in eastern Uttar Pradesh (though it still remains extremely low in the west). While the direct relationship between India's market reforms and these social changes is not established, it does fit the pattern of economic liberalization driving social innovation.

In his popular *Capitalism and Freedom*, the late Milton Friedman dedicates a chapter to the market's relation to discrimination. Drawing on Gary Becker's groundbreaking work,³⁰¹ Friedman writes, "[T]he preserves of discrimination in any society are the areas that are most monopolistic in character, whereas discrimination against groups of particular color or religion is least in those areas where there is the greatest freedom competition."³⁰² He explains that this is due to the higher costs of discrimination: "The man who objects to buying from or working alongside a Negro, for example, thereby limits his range of choice. He will generally have to pay a higher price for what he buys or receive a lower return for his work. Or, put the other way, those of us

³⁰⁰ Devesh Kapur, Chandra Bhan Prasad, Lant Pritchett, D. Shyam Babu, "Rethinking Inequality: Dalits in Uttar Pradesh in the Market Reform Era," *Economic and Political Weekly* 45:35 (Aug. 28, 2010): 39-49.

³⁰¹ Gary S. Becker, *The Economics of Discrimination*, 2nd ed. (Chicago: University of Chicago Press, 1971).

³⁰² Milton Friedman, *Capitalism and Freedom* (Chicago, IL: University of Chicago Press, 1982), 109.

who regard color of skin or religion as irrelevant can buy some things more cheaply as a result.”³⁰³

Economist Jennifer Roback’s investigation into Jim Crow era regulations yields a number of discoveries relevant to Friedman’s claim. Looking into streetcar segregation laws across Georgia, Florida, Alabama, Tennessee and Texas, Roback finds “that segregation laws did not simply codify an already existing, well-established social custom. On the contrary, contemporary reports indicate that whites and blacks customarily sat where they chose on municipal streetcars in the absence of segregation ordinances.” Furthermore, “the streetcar companies frequently resisted segregation, both as custom and law.” In line with Friedman’s insight above, Roback finds, “The reason they most often gave was that separate cars and sections would be too expensive. In addition, there is little indication that pressure for segregation came from the average white passenger.”³⁰⁴ Overall, Roback concludes, “There is little indication that streetcar companies initiated legislation or that they would have segregated in the absence of legislation.”³⁰⁵ In other words, left to the market, greater tolerance would have prevailed.

³⁰³ Ibid., 110. Recent evidence “suggest[s] that firms that engaged in discrimination in 2004 were less likely to be in business six years later. The results appear robust to controls for establishment size, sales assets, and industry” (Devah Prager, “Are Firms That Discriminate More Likely to Go Out of Business?” *Sociological Science* 3, 2016: 855).

³⁰⁴ Jennifer Roback, “The Political Economy of Segregation: The Case of Segregated Streetcars,” *Journal of Economic History* 46:4 (1986): 894.

³⁰⁵ Ibid., 916.

Elsewhere, Roback identifies a number of labor market restrictions that were a means of solidifying white supremacy.³⁰⁶ Drawing on the work of Robert Higgs,³⁰⁷

Roback points to four main labor market regulations:

(1) enticement laws and contract-enforcement laws, which were designed to limit competition in the labor market to the beginning of each contract year; (2) vagrancy laws, which were designed to prevent blacks from being unemployed or otherwise out of the labor force; (3) emigrant-agent laws, which were designed to restrict the activities of labor recruiters; and (4) the convict-lease system, which provided punishment for blacks who violated the above or other laws.³⁰⁸

Roback finds that all four laws reduced black labor competition, both directly and indirectly. She notes that if racial intolerance at the social level had been enough to exclude blacks from the labor force, these laws would have been unnecessary. The existence of the laws indicate that blacks proved to be competitive in the labor market when allowed to freely engage in exchange. “When social pressure, economic power, and custom proved insufficient to...enforce discrimination against blacks,” Roback writes, “the southern elite resorted to restrictive labor laws. The evidence indicates that the laws were invoked to keep the market from bettering the condition of blacks.”³⁰⁹ Other scholars have come to similar conclusions, highlighting various laws such as (but certainly not limited to) the minimum wage that were implemented for the purpose of crowding-out competitive blacks from the market.³¹⁰ This signals to Roback that

³⁰⁶ Jennifer Roback, “Southern Labor Law in the Jim Crow Era: Exploitative or Competitive?” *The University of Chicago Law Review* 51:4 (1984): 1161-1192; “Exploitation in the Jim Crow South: The Market or the Law?” *Regulation* 8:5 (Sept/Dec, 1984): 37-43.

³⁰⁷ Robert Higgs, *Competition and Coercion: Blacks in the American Economy, 1865-1914* (Cambridge, UK: Cambridge University Press, 1977).

³⁰⁸ Roback, “Southern Labor Law,” 1163-1164.

³⁰⁹ Roback, “Exploitation in the Jim Crow South,” 43.

³¹⁰ E.g., David E. Bernstein, *Only One Place of Redress: African Americans, Labor Regulations, and the Courts from Reconstruction to the New Deal* (Durham: Duke University Press, 2001); Walter E. Williams,

“effective discrimination could not persist without the active assistance of government”³¹¹ and, therefore, “it is government, not private individuals, that must be restrained if disfavored minorities are to make substantial economic progress.”³¹²

A clever set of experiments with Bangladeshi rice buyers and rice farmers demonstrate the eroding effects of market competition on ethnic discrimination.³¹³ The researchers first tested the prejudices of ethnic majority rice buyers by assigning both ethnic majority and minority names to different rice samples. The results show no indication of ethnic discrimination from these professional middlemen when it comes to their evaluations of rice quality. “However,” the researchers write,

we found evidence of discrimination against ethnic minority farmers in terms of quoted price that differs across buyers’ type. In particular, we found that ethnic majority local buyers who have local monopsony power quoted a 2.7% lower price for rice associated with ethnic minority sounding names than what they quoted for rice produced by farmers with ethnic majority sounding names. However, this was not true for wholesale buyers who operate in a competitive environment. They quoted the same price for rice whether it was from an ethnic minority or a majority farmer. We also found that, on average, the prices quoted by wholesale buyers operating in a perfect competition market were higher than those of local buyers who have local monopsony power.³¹⁴

Race and Economics: How Much Can Be Blamed on Discrimination? (Stanford, CA: Hoover Institution Press, 2011); Thomas C. Leonard, *Illiberal Reformers: Race, Eugenics, and American Economics in the Progressive Era* (Princeton, NJ: Princeton University Press, 2016). See also Ira Katznelson, *When Affirmative Action Was White: An Untold History of Racial Inequality in Twentieth-Century America* (New York: W.W. Norton and Co., 2005); Mehrsa Baradaran, *The Color of Money: Black Banks and the Racial Wealth Gap* (Cambridge, MA: The Belknap Press of Harvard University Press, 2017); Richard Rothstein, *The Color of Law: The Forgotten History of How Our Government Segregated America* (New York: Liveright Publishing Corp., 2017). The situation is similar in the case of South African apartheid. See, e.g., William H. Hutt, *The Economics of the Colour Bar* (London: Institute of Economic Affairs, 1964); Thomas W. Hazlett, “Economic Origins of Apartheid,” *Contemporary Policy Issues* 6:4 (1988): 85-104; Christopher Lingle, “Apartheid as Racial Socialism,” *Kyklos* 43:2 (1990): 229-247.

³¹¹ Roback, “Exploitation in the Jim Crow South,” 37.

³¹² *Ibid.*, 43.

³¹³ Abu Siddique, Michael Vlassopoulos, Yves Zenou, “Market Competition and Discrimination,” IZA DP No. 13269 (May 2020): <http://ftp.iza.org/dp13269.pdf>

³¹⁴ *Ibid.*, 4.

A follow-up experiment tested these same rice buyers in other-other allocation games. These games paired a buyer with two rice farmers: one ethnic majority and one ethnic minority. Without keeping any for one's self, a buyer would then have to decide how to split a sum of money between the two farmers. The game results show that both local and wholesale buyers prefer ethnic majority farmers, with splits generally being about 60/40 in favor of the ethnic majority. The researchers then surveyed these buyers, finding that both local and wholesale buyers hold similar negative views of ethnic minorities.

All-in-all, the researchers conclude that both local and wholesale buyers are prejudiced against ethnic minorities. Yet, wholesale buyers quote the same price for both ethnic majority and minority farmers whereas local buyers do not. "This suggests that the taste-based discrimination that these buyers have against the ethnic minority group—the existence of which is supported by our second experiment— can be eliminated if competition is strong enough."³¹⁵

Summary

"Contra the pessimists," writes Nate Oman, "exchange within a market tends to make people more attentive and responsive to others' points of view."³¹⁶ This overview of the evidence demonstrates that greater market liberalization is associated with (1) more fair and equal exchanges, (2) greater gender equality, and (3) more tolerant behavior and attitudes toward others. While some evidence for the latter is slightly more qualitative, the pattern of evidence matches that of the more empirical studies. The last two of the

³¹⁵ Ibid., 5.

³¹⁶ Oman, *The Dignity of Commerce*, 45-46.

Big Six can therefore be answered in the affirmative: commerce *does* promote and *is* associated with fairness and tolerance.

CONCLUSION

During the 19th century debates over slavery, many of the institution's most ardent defenders opposed market liberalization as being antithetical to the Southern slave economy.³¹⁷ One such example is George Fitzhugh, who the famously-caned Radical Republican Charles Sumner described as "a leading writer among Slave-masters."³¹⁸ In *Sociology for the South*, Fitzhugh argues that "Laissez-faire and "*Pas trop gouverner*" ["Govern not too much"], are at war with all kinds of slavery, for they in fact assert that individuals and peoples prosper most when governed least."³¹⁹ Elsewhere, he defines "political economy" as "'Laissez-faire,' or 'Let it alone'" and describes it as the "false philosophy of the age."³²⁰ It is "tainted with abolition, and at war with our institutions." Therefore, his recommendation to the South is "to throw Adam Smith, Say, Ricardo & Co., in the fire."³²¹

Defenders of slavery like Fitzhugh understood the emancipatory nature of economic liberalism. The writings of classical liberal thinkers and free traders like Adam Smith, Jean-Baptiste Say, and David Ricardo were recognized as a threat to the racial hierarchy of the South. The evidence presented in this thesis provides a good reason as to why.

³¹⁷ The following draws on Phillip W. Magness, "Classical Liberalism and the "New" History of American Capitalism," in *What Is Classical Liberal History?*, ed. Michael J. Douma and Phillip W. Magness (Lanham: Lexington Books, 2018).

³¹⁸ Charles Sumner, *The Barbarism of Slavery: Speech of Hon. Charles Sumner, on the Bill for the Admission of Kansas as a Free State, In the United States Senate, June 4, 1860* (New York: The Young Men's Republican Union, 1863), 69.

³¹⁹ George Fitzhugh, *Sociology for the South, Or the Failure of Free Society* (Richmond, VA: A. Morris, 1854), 7; <https://docsouth.unc.edu/southlit/fitzhughsoc/fitzhugh.html>

³²⁰ George Fitzhugh, *Cannibals All! Or, Slaves Without Masters* (Richmond, VA: A. Morris, 1857), 79; <https://docsouth.unc.edu/southlit/fitzhughcan/fitzcan.html>

³²¹ *Ibid.*, 88-89.

For proponents of the *doux commerce* theory, commerce was an important part of the grander project of liberalism. As Fukuyama describes it, liberalism is “an institutional solution to the problem of governing diversity...a system for peacefully managing diversity in pluralistic societies...a pragmatic tool for resolving conflicts in diverse societies[.]”³²² Economic liberalism was considered integral to this project. *Doux commerce* theorists argued that market exchange brings with it a bundle of liberal habits and attitudes. These habits and attitudes can be boiled down to the Big Six: (1) Peace, (2) Honesty, (3) Trust, (4) Cooperation, (5) Fairness, and (6) Tolerance.

Yet, when Enlightenment thinkers put forth the *doux commerce* theory, data to test these assumptions were lacking. More than two centuries later, we have various strands of empirical social science that can help determine whether these pro-commerce thinkers were correct. As this thesis has shown, the *doux commerce* theorists were right: commercial societies are more peaceful, less corrupt, more trusting and trustworthy, more cooperative, and more fair and tolerant in their treatment of others. In several cases, the relationship between markets and these attributes were shown to be causal. In other cases, there was merely a positive relationship with the Big Six (very rarely was there no relationship or a negative one). As Brennan notes, “This kind of empirical work is not the final word. It does not decisively prove that market societies foster better motivations than [non-market] societies. However, it is better than hypothesizing from the armchair, as philosophers are apt to do.”³²³

³²² Francis Fukuyama, “Liberalism and Its Discontents,” *American Purpose* (Oct. 5, 2020): <https://www.americanpurpose.com/articles/liberalism-and-its-discontent/>

³²³ Brennan, *Why Not Capitalism?*, 68-69.

The empirical validity of *doux commerce* has several important implications. First, it is a point in favor of liberalism as a political philosophy. *Doux commerce* was part of a larger discussion regarding liberal society. Empirical backing for *doux commerce* is in part empirical backing for liberalism. Second, economic liberalism is a necessary, though not sufficient, part of liberalism. Commerce continues to be maligned even today based on prejudices against markets that go back millennia. Producing peaceful cooperation among diverse peoples requires economic freedom as much as it does political freedom. These two work in tandem.³²⁴ Finally, beyond any political validation, a proposed mechanism for reducing conflict and increasing peaceful cooperation has been shown to actually work. This should be a cause for celebration. And it should motivate policymakers to establish institutions and policies that allow commerce to flourish.³²⁵ Then citizens can be partakers of Montesquieu's "gentle mores."

³²⁴ Robert A. Lawson, Ryan Murphy, and Benjamin Powell, "The Determinants of Economic Freedom: A Survey," *Contemporary Economic Policy* 38:4 (2020): 622-642.

³²⁵ See the discussion in the Introduction under "Defining Terms."

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FELLOWSHIPS

Don Lavoie Fellowship

Mercatus Center at George Mason University (2020)

Frédéric Bastiat Fellowship

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PUBLICATIONS

Selected Peer-Reviewed Articles

- “How Trade Openness Can Help to “Deliver the Poor and Needy,”” *Economic Affairs* 40:1 (2020): 100-107.
- ““Ye Cannot Serve God and Mammon”: An Institutional Interpretation of the Gospels,” *Faith and Economics* 74 (Fall 2019): 5-18.
- “Is Commerce Good for the Soul? An Empirical Assessment,” *Economic Affairs* 38:3 (2018): 422-433.
- ““Ye Are No More Strangers and Foreigners”: Theological and Economic Perspectives on the LDS Church and Immigration,” *BYU Studies Quarterly* 57:1 (2018): 65-103.
- “The Great Escape from Global Poverty: The Economic and Moral Case for Good Management,” *Graziadio Business Review* 20:2 (2017):
<https://gbr.pepperdine.edu/2017/08/the-great-escape-from-global-poverty/>
- ““No Poor Among Them”: Global Poverty, Free Markets, and the “Fourfold” Mission” with Nathaniel Givens. *SquareTwo* 7:1 (Spring 2014):
<http://squaretwo.org/Sq2ArticleGivensWrightNoPoor.html>

Selected Conferences

- Southern Economic Association 90th Annual Meeting, New Orleans, LA, November 2020.
- Philosophy, Politics and Economics Society Meeting, New Orleans, LA, March 2019.
- Mormon Scholars in the Humanities Conference, LDS Institute of Religion and Graduate Theological Union, Berkeley, CA, April 2015.
- Faith and Knowledge Conference, University of Virginia, February 2015.

Selected Online Writing

- “Is Ideology Dividing Us – Or Something Else?” *Public Square Magazine* (March 3, 2020): <https://publicsquaremag.org/editorials/is-ideology-dividing-us-or-something-else/>
- “Good Reasons for Knowing Little,” *Public Square Magazine* (Jan. 23, 2020): <https://publicsquaremag.org/editorials/what-political-ignorance-means-for-policy/>
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- “Immigrants Are Not Threats, They’re Potential Partners,” SMU Texas-Mexico Center Blog (Sept. 21, 2018): <https://blog.smu.edu/texasmexico/2018/09/21/community-perspective-immigrants-are-not-threats-theyre-potential-partners/>
- Difficult Run: <https://difficultrun.nathanielgivens.com/author/walker/>